INTERNATIONAL GAME TECHNOLOGY
Form 10-Q
May 09, 2012

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 March 31, 2012

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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6355 South Buffalo Drive, Las Vegas, Nevada 89113
(Address of principal executive offices) (Zip Code)

Registrant’s telephone number, including area code: (702) 669-7777

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 [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 [X] 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 [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

The number of shares outstanding of each of the registrant's classes of common stock, as of May 4, 2012:
295.2 million shares of common stock at $.00015625 par value.

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

Fiscal dates--actual:	Fiscal dates--as presented:
March 31, 2012	March 31, 2012
April 2, 2011	March 31, 2011
October 1, 2011	September 30, 2011
December 31, 2011	December 31, 2011

Abbreviation/term	Definition
Anchor	Anchor Gaming
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
DoubleDown	Double Down Interactive LLC
EBITDA	earnings before interest, taxes, depreciation, and amortization
Entraction	Entraction Holding AB
EPA	Environmental Protection Agency
EPS	earnings per share
ERISA	Employee Retirement Income Security Act
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
IGT, we, our, the Company	International Game Technology and its consolidated entities
IFRS	International Financial Reporting Standards
IP	intellectual property
IRS	Internal Revenue Service
LatAm	Mexico and South/Central America
LIBOR	London inter-bank offered rate
MDA	management's discussion and analysis of financial condition and results of operations
MLD®	Multi-layer-display
Notes	3.25% convertible notes due 2014
OSHA	Occupational Safety & Health Administration
pp	percentage points
R&D	research and development
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)

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Interim Financial Statements

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See accompanying notes

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CONSOLIDATED INCOME STATEMENTS

	Quarters Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
(In millions, except per share amounts)				
Revenues				
Gaming operations	$300.4	$269.8	$565.0	$522.7
Product sales	240.8	207.2	421.8	405.5
Total revenues	541.2	477.0	986.8	928.2
Costs and operating expenses				
Cost of gaming operations	118.8	102.4	223.0	196.4
Cost of product sales	108.8	92.0	198.2	179.8
Selling, general and administrative	109.3	89.1	199.1	171.3
Research and development	55.3	48.7	102.2	97.6
Depreciation and amortization	19.3	16.7	34.7	34.8
Contingent acquisition related costs	11.7	-	11.7	-
Total costs and operating expenses	423.2	348.9	768.9	679.9
Operating income	118.0	128.1	217.9	248.3
Other income (expense)				
Interest income	10.8	13.3	22.9	26.6
Interest expense	(30.0)	(35.6)	(60.1)	(71.0)
Other	(2.0)	(1.0)	(4.8)	3.4
Total other income (expense)	(21.2)	(23.3)	(42.0)	(41.0)
Income from continuing operations before tax	96.8	104.8	175.9	207.3
Income tax provision	34.4	37.1	63.2	66.8
Income from continuing operations	62.4	67.7	112.7	140.5
Income (loss) from discontinued operations, net of tax	(0.5)	1.9	(1.5)	2.8
Net income	$61.9	$69.6	$111.2	$143.3
Basic earnings (loss) per share				
Continuing operations	$0.21	$0.22	$0.38	$0.47
Discontinued operations	-	0.01	(0.01)	0.01
Net income	$0.21	$0.23	$0.37	$0.48
Diluted earnings (loss) per share				
Continuing operations	$0.21	$0.22	$0.38	$0.47
Discontinued operations	-	0.01	(0.01)	0.01
Net income	$0.21	$0.23	$0.37	$0.48
Cash dividends declared per share	$0.06	$0.06	$0.12	$0.12
Weighted average shares outstanding				
Basic	296.7	298.4	297.0	298.0
Diluted	298.1	299.9	298.6	299.4

See accompanying notes

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CONSOLIDATED BALANCE SHEETS

	March 31, 2012	September 30, 2011
(In millions, except par value)		
Assets		
Current assets		
Cash and equivalents	$271.1	$460.0
Restricted cash and investment securities	87.5	89.6
Restricted cash and investment securities of VIEs	2.0	2.4
Jackpot annuity investments	47.6	48.7
Jackpot annuity investments of VIEs	13.9	14.5
Accounts receivable, net	314.0	320.1
Current maturities of contracts and notes receivable, net	197.4	167.1
Inventories	90.6	73.0
Deferred income taxes	73.6	97.1
Other assets and deferred costs	143.8	137.4
Total current assets	1,241.5	1,409.9
Property, plant and equipment, net	582.0	552.1
Jackpot annuity investments	263.6	271.8
Jackpot annuity investments of VIEs	49.4	52.8
Contracts and notes receivable, net	128.2	126.4
Goodwill	1,470.6	1,231.4
Other intangible assets, net	254.5	170.4
Deferred income taxes	107.1	84.6
Other assets and deferred costs	251.6	255.0
Total Assets	$4,348.5	$4,154.4
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities		
Accounts payable	$89.1	$103.0
Jackpot liabilities, current portion	150.4	143.0
Accrued employee benefits	20.7	38.9
Accrued income taxes	3.6	3.2
Dividends payable	17.7	17.8
Other accrued liabilities	293.0	228.8
Total current liabilities	574.5	534.7
Long-term debt	1,656.4	1,646.3
Jackpot liabilities	346.4	365.4
Other liabilities	260.4	163.2
Total Liabilities	2,837.7	2,709.6
Commitments and Contingencies		
Shareholders' Equity		
Common stock: $.00015625 par value; 1,280.0 shares authorized; 343.3 and 341.9 issued; 295.5 and 297.4 outstanding	0.1	0.1
Additional paid-in capital	1,568.7	1,542.5
Treasury stock at cost: 47.8 and 44.4 shares	(907.7)	(855.2)
Retained earnings	839.4	763.8
Accumulated other comprehensive income	10.3	(8.8)

Total IGT Shareholders' Equity	1,510.8	1,442.4
Noncontrolling Interests	-	2.4
Total Equity	1,510.8	1,444.8
Total Liabilities and Shareholders' Equity	$4,348.5	$4,154.4

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended March 31,	2012	2011
(In millions)		
Operating		
Net income	$111.2	$143.3
Adjustments:		
Depreciation and amortization	115.2	109.2
Discounts and deferred issuance costs	20.1	22.4
Share-based compensation	16.7	22.9
Net loss on disposal and impairment	1.5	-
Excess tax benefits from employee stock plans	(2.3)	(2.8)
Other non-cash items	3.8	(5.7)
Changes in operating assets and liabilities, excluding acquisitions:		
Receivables	(28.5)	3.8
Inventories	(14.6)	(6.2)
Accounts payable and accrued liabilities	3.8	(35.4)
Jackpot liabilities	(21.9)	(56.4)
Income taxes, net of employee stock plans	(11.5)	50.5
Other assets and deferred costs	(16.8)	18.1
Net operating cash flows	176.7	263.7
Investing		
Capital expenditures	(123.6)	(89.3)
Proceeds from assets sold	19.8	9.2
Jackpot annuity investments, net	23.6	26.6
Changes in restricted cash	3.2	23.0
Loans receivable cash advanced	-	(0.5)
Loans receivable payments received	14.9	14.8
Unconsolidated affiliates, net	-	16.5
Business acquisitions, net of cash acquired	(233.0)	-
Net investing cash flows	(295.1)	0.3
Financing		
Debt proceeds	-	95.0
Debt repayments	-	(195.0)
Employee stock plan proceeds	12.0	13.9
Excess tax benefits from employee stock plans	2.3	2.8
Share repurchases	(50.1)	-
Noncontrolling interest acquired	(2.5)	-
Dividends paid	(35.7)	(35.8)
Net financing cash flows	(74.0)	(119.1)
Foreign exchange rates effect on cash and equivalents	3.5	2.6
Net change in cash and equivalents	(188.9)	147.5
Beginning cash and equivalents	460.0	158.4
Ending cash and equivalents	$271.1	$305.9

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.

Six Months Ended March 31,	2012	2011
(In millions)		
Unconsolidated affiliates		
Proceeds from	-	16.5
Net	$-	$16.5
Jackpot funding		
Change in jackpot liabilities	$(21.9)	$(56.4)
Jackpot annuity purchases	(6.2)	(3.8)
Jackpot annuity proceeds	29.8	30.4
Net change in jackpot annuity investments	23.6	26.6
Net jackpot funding	$1.7	$(29.8)
Capital expenditures		
Property, plant and equipment	$(34.5)	$(8.4)
Gaming operations equipment	(87.1)	(80.2)
Intellectual property	(2.0)	(0.7)
Total	$(123.6)	$(89.3)
Payments		
Interest	$29.6	$37.6
Income taxes	72.5	15.7
Non-cash investing and financing items:		
Accrued capital asset additions	$0.7	$0.2
Interest accretion for jackpot annuity investments	10.2	11.5
Business acquisitions/purchase price adjustments		
Fair value of assets	$352.3	$-
Fair value of liabilities	2.7	-

See accompanying notes

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

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

	Period End Actual	Presented as
Current quarter	March 31, 2012	March 31, 2012
Prior year quarter	April 2, 2011	March 31, 2011
Prior year end	October 1, 2011	September 30, 2011

Our consolidated interim financial statements include the accounts of International Game Technology, including all majority-owned or controlled subsidiaries and VIEs for which we are the primary beneficiary. All inter-company accounts and transactions have been eliminated.

Our consolidated interim financial statements for the current quarter ended March 31, 2012 were prepared without audit on a basis consistent with the comparative quarter ended March 31, 2011, and as appropriate, with the audited financial statements for the year ended September 30, 2011. Certain information and footnote disclosures have been condensed or omitted in conformity with SEC and US GAAP requirements.

Our consolidated interim financial statements include all adjustments of a normal recurring nature 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 on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2011.

Unless otherwise indicated in this report:

- references to years relate to our fiscal years ending September 30
- dollar amounts in tables are presented in millions, except EPS and par value
- current refers to the quarter ended March 31, 2012
- italicized text with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors, and additional IGT trademark information is available on our website at www.IGT.com

Use of Estimates

Our consolidated interim 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.

Restricted Cash and Investments

We are required by gaming regulation to maintain sufficient reserves in restricted accounts to be used for the purpose of funding payments to WAP jackpot winners. Restricted amounts are based primarily on the jackpot meters displayed to slot players and vary by jurisdiction. Compliance with restricted cash and investments requirements for jackpot funding is reported to the gaming authorities in various jurisdictions.

Additionally, restricted cash and investments included online player deposits of $12.5 million at March 31, 2012 and $14.5 million at September 30, 2011.

Recently Adopted Accounting Standards or Updates

Fair Value Measurements

At the beginning of 2012, we adopted accounting standards issued in January 2010 that require separate disclosure of purchases, sales, issuances, and settlements of fair value instruments within the Level 3 reconciliation. The adoption of this ASU did not have a material impact on our financial statements.

Accruals for Casino Jackpot Liabilities

At the beginning of 2012, we adopted accounting standards issued in April 2010, clarifying that jackpot liabilities should not be accrued before they are won if the payout can be avoided. This ASU did not have a material impact on our financial statements.

Fair Value Measurements

In May 2011, the FASB issued an ASU to amend fair value measurements to achieve convergence between US GAAP and IFRS. See Note 8 for additional information about fair value measurements. This adoption in our second quarter of 2012 changed some fair value measurement principles and disclosure requirements, but did not have a material impact on our financial statements.

Recently Issued Accounting Standards or Updates—Not Yet Adopted

Qualitative Goodwill Impairment Assessment

In September 2011, the FASB issued an ASU to simplify the annual goodwill impairment test by allowing an entity to first assess qualitative factors, considering the totality of events and circumstances, to determine that there is a greater than 50% likelihood that the carrying amount of a reporting unit is less than its fair value. If so, then the two-step impairment test is not required. The ASU will be effective for our 2013 first quarter and we are currently evaluating whether we will adopt early, as permitted. This ASU is not expected to have a material impact on our financial statements.

Presentation of Other Comprehensive Income

In June 2011, the FASB issued an ASU to require other comprehensive income, including income reclassification adjustments, to be presented with net income in one continuous statement or in a separate statement consecutively following net income. In December 2011, the requirement to disclose the income reclassification adjustments by component was deferred indefinitely. This ASU will be effective for our 2013 first quarter and is not expected to have a material impact on our financial statements.

Offsetting Assets and Liabilities

In December 2011, the FASB issued an ASU to require new disclosures associated with offsetting financial instruments and derivative instruments on the balance sheet that will enable users to evaluate the effect on an entity's financial position. This ASU will be effective for our 2014 first quarter and, is not expected to have a material impact on our financial statements.

2. VARIABLE INTERESTS 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 and IGT is 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 $65.3 million at March 31, 2012 and $69.7 million at September 30, 2011.

Investments in Unconsolidated Affiliates

China LotSynergy Holdings, Ltd.

During the 2011 first quarter, we sold our CLS stock investment for net proceeds of $16.5 million and recognized a gain of $4.3 million.

The fair value of our CLS convertible note, including the default put, totaled $9.2 million at March 31, 2012 and $9.3 million at September 30, 2011. The adjusted cost basis of the note, including the conversion option derivative that did not require bifurcation, totaled $9.3 million at March 31, 2012 and $8.9 million at September 30, 2011. The fair value of the free standing derivative default put, was zero at March 31, 2012 and was $0.4 million at September 30, 2011.

See Note 8 and 9 for additional information about related fair value assumptions and derivatives.

3. RECEIVABLES

Accounts Receivable

Allowances for Credit Losses	March 31, 2012	September 30, 2011
Total	$ 16.5	$ 17.6

Customer Financing (Contracts and Notes)

	March 31, 2012	September 30, 2011
Recorded Investment (principal and interest due, net of deferred interest and fees)		
Individually evaluated for impairment	$ 113.4	$ 104.2
Collectively evaluated for impairment	282.7	260.7
Total	$ 396.1	$ 364.9
Allowances for Credit Losses		
Individually evaluated for impairment	$ 56.9	$ 58.6
Collectively evaluated for impairment	13.6	12.8
Total	$ 70.5	$ 71.4

Reconciliation of Allowances for Credit Losses	Quarters Ended March 31, 2012	2011	Six Months Ended March 31, 2012	2011
Beginning balance	$ 70.1	$ 77.7	$ 71.4	$ 78.4
Charge-offs	-	(0.5)	-	(1.0)
Recoveries	-	0.3	-	0.4

Provisions	0.4	0.5	(0.9)	0.2
Ending balance	$ 70.5	$ 78.0	$ 70.5	$ 78.0
Current	$ 46.8	$ 43.7	$ 46.8	$ 43.7
Non-current	$ 23.7	$ 34.3	$ 23.7	$ 34.3

	March 31, 2012			September 30, 2011		
Age Analysis of Recorded Investment	Contracts	Notes	Total	Contracts	Notes	Total
Past Due:						
1-29 days	$ 5.1	$ 1.4	$ 6.5	$ 5.3	$ 2.0	$ 7.3
30-59 days	3.8	1.4	5.2	2.0	1.8	3.8
60-89 days	2.2	1.4	3.6	1.2	1.8	3.0
Over 90 days	6.5	41.7	48.2	6.3	31.0	37.3
Total past due	$ 17.6	$ 45.9	$ 63.5	$ 14.8	$ 36.6	$ 51.4
Total current	234.1	98.5	332.6	188.1	125.4	313.5
Grand total	$ 251.7	$ 144.4	$ 396.1	$ 202.9	$ 162.0	$ 364.9
Over 90 days and accruing interest	$ 2.6	$ 0.1	$ 2.7	$ 2.6	$ 0.1	$ 2.7
Nonaccrual status (not accruing interest)	19.4	84.0	103.4	24.2	84.0	108.2

	March 31, 2012			September 30, 2011		
Recorded Investment by Credit Quality Indicator Using Credit Profile by Internally Assigned Risk Grade	Contracts	Notes	Total	Contracts	Notes	Total
Low	$76.2	$-	$76.2	$43.9	$-	$43.9
Medium	28.3	0.3	28.6	25.8	0.3	26.1
High*	147.2	144.1	291.3	133.2	161.7	294.9
Total recorded investment	$251.7	$144.4	$396.1	$202.9	$162.0	$364.9

* includes $84.0 of impaired Alabama notes receivable

Impaired loans	March 31, 2012			September 30, 2011		
	Contracts	Notes	Total	Contracts	Notes	Total
Recorded investment	$1.8	$84.0	$85.8	$5.2	$84.0	$89.2
Unpaid principal face	1.7	85.2	86.9	5.1	85.2	90.3
Related allowance	1.1	55.8	56.9	2.8	55.8	58.6
Average recorded investment	3.5	84.0	87.5	8.8	87.6	96.4

Interest income recognized on impaired loans	March 31, 2012			March 31, 2011		
	Contracts	Notes	Total	Contracts	Notes	Total
Quarter-to-date:						
Total	$-	$-	$-	$0.2	$-	$0.2
Year-to-date						
Total	$-	$-	$-	$0.5	$0.3	$0.8
Cash-basis	-	-	-	-	0.3	0.3

4. CONCENTRATIONS OF CREDIT RISK

Receivables By Legal Gaming Region At March 31, 2012		
Nevada	10	%
Alabama	5	

Oklahoma	4	
New Jersey	4	
Other (less than 4% individually)	28	
North America	51	%
Argentina	24	%
Europe	7	
Australia	5	
Other (less than 4% individually)	13	
International	49	%

5. INVENTORIES

	March 31, 2012	September 30, 2011
Raw materials	$44.0	$44.1
Work-in-process	3.8	2.4
Finished goods	42.8	26.5
Total	$90.6	$73.0

6. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2012	September 30, 2011
Land	$62.7	$62.6
Buildings	234.4	232.8
Leasehold improvements	18.0	17.3
Machinery, furniture and equipment	277.4	248.6
Gaming operations equipment	834.4	812.9
Total	1,426.9	1,374.2
Less accumulated depreciation	(844.9)	(822.1)
Property, plant and equipment, net	$582.0	$552.1

7. GOODWILL AND OTHER INTANGIBLES

Goodwill

Activity By Segment For the Six Months Ended March 31, 2012	North America	International	Total
Beginning balance	$1,042.8	$188.6	$1,231.4
Acquisitions (see Note 17)	234.6	-	234.6
Foreign currency adjustments	-	4.6	4.6
Ending balance	$1,277.4	$193.2	$1,470.6

Other Intangibles

Additions For the Six Months Ended March 31, 2012	Business Combinations (See Note 17)	Other Additions	Weighted Average Life (Years)
Patents (including capitalized legal costs)	$-	$0.7	4
Developed technology	51.8	-	6
Customer relationships	47.3	-	4
Trademarks	10.9	-	5
Reaquired rights	-	1.3	2
Total	$110.0	$2.0	

	March 31, 2012			September 30, 2011		
Ending Balances	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Patents	$383.5	$ 285.4	$98.1	$382.8	$ 270.5	$112.3
Developed technology	131.7	52.4	79.3	86.9	54.0	32.9
Contracts	23.5	19.7	3.8	25.5	19.5	6.0
Reacquired rights	14.7	2.7	12.0	13.4	2.1	11.3
Customer relationships	61.1	10.8	50.3	14.2	6.9	7.3
Trademarks	12.5	1.5	11.0	2.1	1.5	0.6
Total	$627.0	$ 372.5	$254.5	$524.9	$ 354.5	$170.4

	Quarters Ended March 31,		Six Months Ended March 31,		Future Annual Estimates				
Aggregate Amortization	2012	2011	2012	2011	2012	2013	2014	2015	2016
	$ 16.6	$ 11.0	$ 27.2	$ 23.3	$ 57.5	$ 89.9	$ 79.9	$ 58.5	$ 36.3

8. FAIR VALUE MEASUREMENTS

Financial Assets (Liabilities) Carried at Fair Value

	Fair Value	Level 1	Level 2	Level 3
March 31, 2012				
Money market funds	$83.5	$83.5	$-	$-
Investments in unconsolidated affiliates	9.2	-	-	9.2
Derivative assets	84.8	-	84.8	-
Derivative liabilities	(87.0)	-	(87.0)	-
Acquisition contingent consideration payable	(90.7)	-	-	(90.7)
September 30, 2011				
Money market funds	$76.9	$76.9	$-	$-
Investments in unconsolidated affiliates	9.3	-	-	9.3
Derivative assets	90.8	-	90.8	-
Derivative liabilities	(93.2)	-	(93.2)	-

Valuation Techniques and Balance Sheet Presentation

Money market funds were primarily money market securities valued based on quoted market prices in active markets.

Investments in unconsolidated affiliates were valued using an integrated lattice model incorporating market participant assumptions for publicly traded stock price (HK$0.11 at March 30, 2012), risk-free rate (.06%), credit rating (B+), bond yield (1.95%), daily stock price volatility (63%) and default recovery rate (40%). Generally, changes in risk free rate and credit rating will result in inverse changes in fair value, while changes in stock price, stock price volatility, bond yield and recovery rate result in directionally similar changes in fair value. Changes in credit rating are generally accompanied by directionally opposite changes in bond yield. These investments were presented as a component of other current assets. See Note 2.

Derivative assets and liabilities were valued using quoted forward pricing from bank counterparties, LIBOR credit default swap rates for non-performance risk, and net settlement amounts where appropriate. These are presented primarily as components of other assets, other liabilities, and notes payable. See Note 9.

Acquisition contingent consideration payable related to DoubleDown reaching certain earnings targets was valued with a DCF model applied to the expected payments determined based on probability-weighted internal earnings projections. We applied a rate of probability (15% - 65%) to each scenario, as well as a risk-adjusted discount rate of 19%, to derive the estimated fair value at March 31, 2012. Changes in the projections and/or the probabilities are the most significant assumptions and result in directionally similar changes in the fair value. Discount rate changes cause a directionally opposite change in the fair value. Acquisition contingent consideration payable was presented as a component of other current ($29.5 million) and noncurrent liabilities ($61.2 million) and changes in its fair value are recorded to contingent acquisition related costs on the income statement, along with accrued retention plan compensation. See Note 17.

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

Six Months Ended March 31,	2012		2011
	Investments in Unconsolidated Affiliates	Acquisition Contingent Consideration Payable	Investments in Unconsolidated Affiliates
Beginning balance	$9.3	$-	$21.3
Gain (loss) included in:			
Other income (expense) - other	(0.4)	-	(2.0)
Other comprehensive income	(0.2)	-	1.0
Issuances	-	(90.7)	-
Interest accretion	0.5	-	1.1
Ending balance	$9.2	$(90.7)	$21.4
Net change in unrealized gain (loss) included in earnings related to instruments still held	$(0.4)	$-	$(2.0)

Financial Assets (Liabilities) Not Carried at Fair Value

	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Unrealized Gain (Loss)
March 31, 2012						
Jackpot investments	$374.5	$435.2	$435.2	$-	$-	$60.7
Contracts & notes receivable	325.6	316.3	-	-	316.3	(9.3)
Jackpot liabilities	(496.8)	(515.1)	-	-	(515.1)	(18.3)
Debt	(1,569.6)	(1,873.5)	(1,873.5)	-	-	(303.9)
September 30, 2011						
Jackpot investments	$387.8	$458.9	$458.9	$-	$-	$71.1
Contracts & notes receivable	293.5	294.6	-	-	294.6	1.1
Jackpot liabilities	(508.4)	(521.6)	-	-	(521.6)	(13.2)
Debt	(1,553.1)	(1,879.5)	(1,879.5)	-	-	(326.4)

Valuation Techniques and Balance Sheet Presentation

Jackpot investments were valued based on quoted market prices.

Contracts and notes receivable were valued using DCF, incorporating expected payments and market interest rates relative to the credit risk of each customer (low 7.5%, medium 8%, high 9.5% - 11%). Credit risk is determined 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. Contracts are secured by the underlying assets sold and notes are secured by the developed property and/or other assets. 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. See Notes 3 and 4.

Jackpot liabilities were valued using DCF, incorporating expected future payment timing, estimated funding rates based on the treasury yield curve, and IGT's nonperformance credit risk. Expected annuity payments over 1-25 years (average 10 years) were discounted using the 10-year treasury yield curve rate (2.21%) for the estimated funding rate and the 10-year credit default swap rate (1.65%) for nonperformance risk. The present value (carrying value) of the expected lump sum payments were discounted using the 3-month treasury yield curve rate (.08%) with the 1-year credit default swap rate (.44%) for the current amounts and the 1-year treasury yield curve rate (.23%) with the 2-year credit default swap rate (.65%) for noncurrent amounts. Significant increases (decreases) in any of these inputs in isolation would result in a lower (higher) fair value measurement. Generally, changes in the estimated funding rates do not correlate with changes in nonperformance credit risk.

Debt was valued using quoted market prices or dealer quotes, for the identical financial instrument when traded as an asset in an active market. When our revolving credit facility has an outstanding balance, its level 2 fair value would be determined using DCF models of expected payments on outstanding borrowings at current borrowing rates. Carrying values above excluded swap adjustments and equity components of convertible debt.

Level 3 Valuation Process

Our valuation policies and procedures are determined by the Accounting Department, which ultimately reports to the Chief Financial Officer, in coordination with appropriate business asset owners and third-party valuation services when needed. Changes in fair value and methods for calibration, back testing, and other testing procedures of pricing models are evaluated through analytical review by managers of the responsible Accounting Department quarterly, by the Global Controller at inception and periodically with significant changes. Material valuations are discussed with the Audit Committee at inception and periodically if changes are significant or if impairment charges are recorded. Third-party information is evaluated for consistency with the FASB ASC for fair value measurement through analytical review and in-depth discussions with a variety of valuation experts.

Unobservable inputs are used only to the extent that observable inputs are not available and reflect management assumptions that cannot be corroborated with observable market data about what market participants would use in pricing the asset or liability, including assumptions about risk. Our unobservable inputs consist primarily of expected cash flows, stock price volatility, and other rates derived through extrapolation or interpolation. These inputs are developed based on the best information available, including trends deduced from available historical information and future expectations, using company specific data and market or industry published data. These inputs are validated for reasonableness by analytic comparison to other relevant valuation statistics whenever possible. Unobservable inputs depend on the facts and circumstances specific to a given asset or liability and require significant professional judgment.

9. FINANCIAL DERIVATIVES

Foreign Currency Hedging

The notional amount of foreign currency contracts hedging our exposure related to monetary assets and liabilities denominated in nonfunctional currency totaled $23.0 million at March 31, 2012 and $13.9 million at September 30, 2011.

In May 2007, we executed five-year forward contracts designated as fair value hedges to protect a portion of the US dollar value of our Hong Kong dollar investment in the CLS convertible note (See Note 2). In conjunction with the early redemption of this CLS investment negotiated in September 2010, we executed additional contracts which effectively reduced the cumulative amount of forward contracts. The notional amount of these foreign currency contracts totaled $6.4 million and there was no ineffectiveness during the three and six months ended March 31, 2012 and 2011.

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 exchange 7.5% fixed interest payments for variable rate interest payments, at one-month LIBOR plus 342 bps, reset two business days before the 15th of each month. In April 2011, we additionally executed $250.0 million notional value interest rate swaps that exchange the remaining fixed interest payments on these Bonds for variable rate interest payments, based on six-month LIBOR plus 409 bps, reset in arrears two business days before June 15 and December 15 each year. All of these swaps terminate on June 15, 2019.

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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, reset in arrears two business days before June 15 and December 15 each year. These swaps terminate on June 15, 2020.

All of our interest rate swaps are designated fair value hedges against changes in the fair value of a portion of their related bonds. Net amounts receivable or payable under our swaps settle semiannually on June 15 and December 15. Our assessments have determined that these interest rate swaps are highly effective.

Presentation of Derivative Amounts

Balance Sheet Location and Fair Value	March 31, 2012	September 30, 2011
Non-designated Hedges		
Foreign currency contracts: Other assets and deferred costs (current)	$ 0.1	$ 0.4
Foreign currency contracts: Other accrued liabilities	0.3	-
Designated Hedges		
Interest rate swaps: Other assets and deferred costs (noncurrent)	84.7	90.4
Interest rate swaps: Long-term debt	86.8	93.2

Income Statement Location and Gain (loss)	Quarters Ended March 31, 2012	2011	Six Months Ended March 31, 2012	2011
Non-designated Hedges				
Foreign currency contracts: Other income (expense)	$0.1	$0.6	$0.6	$1.3
Designated Hedges				
Interest rate swap - ineffectiveness: Other income (expense)	$0.6	$(0.2)	$0.9	$0.3
Interest rate swap - effectiveness: Interest expense	6.3	4.8	12.2	9.4

10. CREDIT FACILITIES AND INDEBTEDNESS

Total Outstanding debt

	March 31, 2012	September 30, 2011
Credit facilities	$ -	$ -
3.25% Convertible Notes	850.0	850.0
7.5% Bonds	500.0	500.0
5.5% Bonds	300.0	300.0
Total principal debt obligations	1,650.0	1,650.0
Discounts:		
3.25% Convertible Notes	(77.1)	(93.5)
7.5% Bonds	(2.2)	(2.3)
5.5% Bonds	(1.1)	(1.1)
Swap fair value adjustments:		
7.5% Bonds	58.2	61.8

5.5% Bonds		28.6		31.4
Total outstanding debt, net	$	1,656.4	$	1,646.3

IGT was compliant with all covenants and embedded features required no bifurcation at March 31, 2012.

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Credit Facilities

At March 31, 2012, no amounts were outstanding under our domestic credit facility, $726.4 million was available, and $23.6 million was reserved for letters of credit and performance bonds. Our foreign credit facility in Australia was terminated in April 2012.

3.25% Convertible Notes

	Quarters Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Contractual interest expense	$6.9	$6.9	$13.8	$13.8
Discount amortization	8.3	7.6	16.4	15.0

Bonds

Interest rate swaps executed in conjunction with our Bonds are described in Note 9.

11. CONTINGENCIES

Litigation

From time to time, in the normal course of its operations, the Company is a party to litigation matters and claims. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and the Company's view of these matters may change in the future as the litigation and events related thereto unfold. The Company expenses legal fees as incurred. The Company records a provision for contingent losses when it is both probable that a liability will be incurred and the amount or range of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Company's operations or its financial position, liquidity or results of operations.

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 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. At the February 1, 2010 hearing on the motion, 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 (“the ‘983 patent”), have been dismissed. All proceedings relating to Bally’s antitrust, unfair competition, and intentional interference counterclaims were 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 and Bally appealed.

On October 6, 2011, the United States Federal Circuit Court of Appeals affirmed the judgment in favor of IGT and against Bally. A trial to determine the amount of damages incurred by IGT, and related matters, as a result of Bally's infringement has been scheduled for November 2012.

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 (the “’215 patent”), 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 recommenced in the District Court and on May 13, 2010, the District Court entered an order granting IGT's motion for summary judgment of non-infringement. Aristocrat appealed this judgment. Proceedings on IGT's claim that Aristocrat committed inequitable conduct in reviving the '215 patent application continued in the District Court. A trial was held the week of April 4, 2011 on that inequitable conduct issue, and that claim was dismissed on May 6, 2011.

IGT and Aristocrat entered into an agreement, effective September 30, 2011, settling the lawsuit. On October 6, 2011, the parties filed a letter with the court advising the court that, in accordance with the parties' resolution of several disputes between them, the case will be concluded by dismissal with prejudice following the final resolution of the pending appeal of the judgment of non-infringement. In connection with the settlement, IGT was granted an irrevocable paid-up license to the Aristocrat patents that were the subject of the litigation and related patents.

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. section 271.

On January 28, 2011, IGT asserted an additional claim against Aristocrat for infringement of US Patent No 7,063,615 (the "'615 patent") seeking similar relief. IGT asserted that Aristocrat infringes on the '047, the '370, and the '615 patents in connection with the sale and distribution of gaming devices, including the Viridian WS slot machine, without authorization or license from IGT. Aristocrat has denied infringement, filed various affirmative defenses and counterclaimed for patent invalidity.

IGT and Aristocrat entered into an agreement, effective September 30, 2011, settling the lawsuit and on October 4, 2011, the court entered an order dismissing the lawsuit. In connection with the settlement, IGT granted Aristocrat a non-exclusive license to certain IGT patents. IGT and Aristocrat are currently involved in arbitration concerning Aristocrat's payment of royalties under the license agreement.

Rice (formerly Piercey) v Atlantic Lotteries

On May 11, 2010, Atlantic Lottery Corporation 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 Lottery Corporation in a class action suit also filed in the Supreme Court of New Foundland and Labrador. In December 2011, the plaintiff filed a motion seeking leave to substitute a new plaintiff in place of Rice and to make certain amendments to plaintiff's statement of claim. In January 2012, Atlantic Lottery Corporation filed a motion to dismiss the action for abuse of process. By a decision, dated April 5, 2012, the Court granted defendants' motion to strike plaintiff's statement of claim, terminating the action.

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 Exchange Act against IGT and certain of its current and former officers and directors. 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. In April 2010, plaintiffs filed an amended complaint. In March 2011, defendants' motion to dismiss that complaint was granted in part and denied in part. The Court found that the allegations concerning statements about the seasonality of game play levels and announcements of projects with Harrah's and City Center were sufficient to state a claim. Plaintiffs did not state a claim based on the remaining statements about earnings, operating expense, or forward-looking statements about play levels and server-based technology.

The parties have settled this action. On February 1, 2012, at the direction of the Court, the plaintiffs filed a Notice of Pending Settlement. On March 28, 2012, the parties submitted to the Court a stipulation to settle the litigation for a payment of $12.5 million which will be covered by insurance. On March 30, 2012 the Court issued an order of preliminary approval. At March 31, 2012, we recorded $12.5 million in other accrued liabilities with a corresponding insurance receivable in current other assets.

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 Fosbre v. Matthews et al., Case No. 3:09-cv-00467; Calamore v. Matthews et al., Case No. 3:09-cv-00489; Israni v. Bittman, et al., Case No. 3:09-cv-00536; and Aronson v. Matthews et al., Case No. 3:09-cv-00542. 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 alleged 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. After plaintiffs elected not to amend, the court entered judgment in favor of the defendants. The plaintiff in Israni v. Bittman, et al. appealed to the US Court of Appeals for the Ninth Circuit. On April 2, 2012, the appeals court affirmed the district court's decision dismissing the action.

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 alleged 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 shareholder filed a derivative lawsuit in the US District Court for the District of Nevada, captioned Sprando v. Hart, et al., Case No. 3:10-cv-00415 and asserting claims similar to those described above. No claims were asserted against the Company, which is a nominal defendant. On July 25, 2011, the Court granted the Company's motion to dismiss with prejudice. Plaintiff then appealed to the US Court of Appeals for the Ninth Circuit.

In February 2011, another shareholder sent a letter to the Company's Board of Directors requesting that the Board investigate allegations similar to those set forth in the derivative actions described above and bring a lawsuit against various of the Company's current or former officers and directors. In response the Board of Directors formed a litigation committee comprised of disinterested outside directors and assisted by outside counsel to investigate and evaluate the allegations raised in this letter. At the conclusion of this investigation, the committee concluded and recommended that it would not be in the best interests of the Company or its shareholders to pursue the proposed claims. The Board considered and accepted this recommendation and the Company informed the shareholder of the Board's resolution in September 2011. On March 15, 2012, the shareholder filed a derivative action in state court in Reno, Nevada (Gusinsky v. Thomas J. Matthews, et. al.), Second Judicial Court of the State of Nevada.

On April 8, 2011, the Company was nominally sued in a derivative complaint filed in the US District Court for the District of Nevada, captioned Arduini v. Hart, et al., Case No. 3:11-cv-00255. The claims and allegations in this complaint are similar to those asserted in the securities class action and derivative actions described above. A motion to dismiss has been filed. On March 14, 2012, defendants' motion to dismiss the action was granted.

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 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. The actions were consolidated. The consolidated complaint (which seeks unspecified damages) asserts claims under the Employee Retirement Income Security Act, 29 U.S.C §§ 1109 and 1132.

The consolidated complaint is based on allegations similar to those in the securities and derivative lawsuits described above, and further alleges 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, and permitting participants to elect to invest in Company stock. In March 2011, defendants' motion to dismiss the consolidated complaint was granted in part and denied in part. On March 16, 2012, the Court denied plaintiff's motion for class certification.

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.

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 March 31, 2012 totaled $22.2 million.

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 plaintiffs were awarded damages in an amount equal to approximately $2.2 million. On March 9, 2011, IGT filed a Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial or for Remittitur. On May 24, 2011, the Court denied these motions, and on May 27, 2011, the Court entered an amended judgment for prejudgment interest of approximately $1.3 million, attorneys' fees of approximately $1.0 million, and court costs of approximately $132,000. IGT filed a notice of appeal to the US Court of Appeals for the Ninth Circuit on June 21, 2011, which is pending. On July 1, 2011 plaintiffs filed a notice of cross appeal.

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 $14.6 million at March 31, 2012. We are liable to reimburse the bond issuer in the event of exercise due to our nonperformance.

Letters of Credit

Outstanding letters of credit issued under our domestic credit facility to ensure payment to certain vendors and governmental agencies totaled $9.0 million at March 31, 2012.

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.

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.

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.

Six Months Ended March 31,	2012	2011
Beginning balance	$6.2	$9.3
Reduction for payments made	(2.8)	(3.3)
Accrual for new warranties issued	4.4	4.9

Adjustments for pre-existing warranties	(2.9)	(2.3)
Ending balance	$4.9	$8.6

12. INCOME TAXES

Our provision for income taxes is based on an estimated effective annual income tax rate, as well as the impact of discrete items, if any, occurring during the period. 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 six months ended March 31, 2012 increased to 35.9% from 32.2% for the same prior year period. The prior year effective tax rate was positively impacted by favorable discrete items including an increase in the manufacturing deduction and the retroactive reinstatement of the R&D tax credit. The current year effective tax rate was negatively impacted by losses in foreign jurisdictions for which there are no associated tax benefits and the expiration of the R&D tax credit.

At March 31, 2012, our gross UTBs totaled $120.8 million, excluding related accrued interest and penalties of $22.0 million. At March 31, 2012, $77.9 million of our UTBs, including related accrued interest and penalties, would affect our effective tax rate if recognized. During the six months ended March 31, 2012, our UTBs increased $4.4 million and related interest and penalties increased $1.8 million.

We are currently under audit by the IRS for amended returns filed for 1999, 2006 and 2007, as well as our originally filed returns for 2008 and 2009. We are also subject to examination in various 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. EMPLOYEE BENEFIT PLANS

Share-based Compensation

SIP As Of And For The Six Months Ended March 31, 2012

Options	Shares (thousands)	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at beginning of fiscal year	15,245	$18.85		
Granted	294	16.21		
Exercised	(723)	12.12		
Forfeited	(364)	16.44		
Expired	(1,272)	27.79		
Outstanding at end of period	13,180	$18.37	6.4	$17.7
Vested and expected to vest	12,878	$18.42	6.3	$17.3
Exercisable at end of period	7,894	$19.96	5.1	$10.1

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Restricted Shares/Units	Shares (thousands)	Weighted Average Grant Date Fair Value (per share)	Weighted Average Remaining Vesting Period (years)	Aggregate Intrinsic Value (millions)
Outstanding at beginning of fiscal year	3,388	$ 15.26		
Granted	2,744	15.14		
Vested	(677)	16.58		
Forfeited	(389)	14.53		
Outstanding at end of period	5,066	$ 14.98	1.8	$ 85.1
Expected to vest	4,706	$ 14.98	1.8	$ 79.0

Other Information		
Shares available for future grant	26.7	million
Unrecognized costs for outstanding awards	$86.6	million
Weighted average future recognition period	1.9	years

14. EARNINGS PER SHARE

	Quarters Ended March 31, 2012	Quarters Ended March 31, 2011	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
Income from continuing operations available to common shares	$62.4	$67.7	$112.7	$140.5
Basic weighted average shares outstanding	296.7	298.4	297.0	298.0
Dilutive effect of non-participating share-based awards	1.4	1.5	1.6	1.4
Diluted weighted average common shares outstanding	298.1	299.9	298.6	299.4
Basic EPS from continuing operations	$0.21	$0.22	$0.38	$0.47
Diluted EPS from continuing operations	$0.21	$0.22	$0.38	$0.47
Shares excluded from diluted EPS as the effect would be anti-dilutive:				
Share-based awards	11.4	16.5	11.6	16.6
Notes	42.6	42.6	42.6	42.6
Note hedges	(42.6)	(42.6)	(42.6)	(42.6)
Warrants	42.6	42.6	42.6	42.6

15. OTHER COMPREHENSIVE INCOME

	Quarters Ended March 31, 2012	Quarters Ended March 31, 2011	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011
Net income	$ 61.9	$ 69.6	$ 111.2	$ 143.3
Currency translation adjustments	13.3	9.3	19.4	9.5

Investment unrealized gains (losses)		(0.1	)		1.0		(0.3	)		0.5
Comprehensive income	$	75.1		$	79.9	$	130.3		$	153.3

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16. 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, primarily comprised of general and administrative costs and other income (expense). 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 included in one segment may benefit other segments. Realignment of our business development and administrative functions, as well as discontinued operations, results in ongoing changes to the allocations of operating costs amongst our operating segments. Prior period operating income presented below was recast accordingly.

Business Segments Financial Information

	Quarters Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
NORTH AMERICA				
Revenues	$415.5	$367.9	$738.2	$719.6
Gaming operations	254.7	232.9	474.3	450.9
Product sales	160.8	135.0	263.9	268.7
Gross profit	243.1	215.8	427.5	425.8
Gaming operations	150.9	141.3	281.1	275.3
Product sales	92.2	74.5	146.4	150.5
Operating income	123.1	121.3	215.7	234.8
INTERNATIONAL				
Revenues	$125.7	$109.1	$248.6	$208.6
Gaming operations	45.7	36.9	90.7	71.8
Product sales	80.0	72.2	157.9	136.8
Gross profit	70.5	66.8	138.1	126.2
Gaming operations	30.7	26.1	60.9	51.0
Product sales	39.8	40.7	77.2	75.2
Operating income	27.9	32.4	59.9	61.5
CORPORATE (unallocated)				
Operating expenses	$(33.0)	$(25.6)	$(57.7)	$(48.0)
CONSOLIDATED				
Revenues	$541.2	$477.0	$986.8	$928.2
Gaming operations	300.4	269.8	565.0	522.7
Product sales	240.8	207.2	421.8	405.5
Gross profit	313.6	282.6	565.6	552.0

Gaming operations	181.6	167.4	342.0	326.3
Product sales	132.0	115.2	223.6	225.7
Operating income	118.0	128.1	217.9	248.3

17. BUSINESS ACQUISITIONS

Pro forma information was not provided, as these acquisitions were not material to our consolidated financial statements. Both were presented as components of our North America gaming operations.

Double Down Interactive LLC.

On January 20, 2012, we acquired 100% of Seattle based Double Down Interactive LLC., developer and operator of the virtual currency DoubleDown Casino® found on Facebook. DoubleDown has a broad and expanding game portfolio, offering blackjack, slots, slot tournaments, video poker, and roulette to social gamers all around the world. This strategic acquisition is expected to establish IGT's position in casino-style social gaming and strengthen our core business with added distribution channels for IGT game content.

Our initial investment of $250.9 million, net of cash acquired, included $225.0 million paid through March 2012, $0.9 million paid in April 2012, and $25.0 million held back for 18 months to provide a source of recovery in the event of certain indemnification claims. Total potential consideration of $500.9 million, net of cash acquired, also provides for maximum earn-out payments of $165.0 million over the next three years dependent on financial performance targets and maximum employee retention payments of $85.0 million to certain DoubleDown employees over the two years following the acquisition.

The estimated fair value of $90.7 million for the earn-out consideration at the acquisition date was included in the capitalized purchase price of $341.6 million, net of cash acquired. The retention payments were not included in the capitalized purchase price and will be recorded, along with earn-out fair value adjustments as operating expenses in a separate line for contingent acquisition related costs. Fair value amounts were determined using DCF based on probability-weighted earnings projections and a risk adjusted discount rate of 19%. See Note 8 regarding adjustments for future changes in the earn-out fair value.

The following allocation of purchase consideration is provisional pending completion of the business valuation:

- tangible assets of $7.2 million
- identifiable intangible assets of $109.2 million
- goodwill of $227.9 million related to non-separable intangibles and is deductible for tax purposes
- liabilities of $2.7 million

Professional fees recorded in SG&A for this acquisition totaled $5.4 million through March 31, 2012.

Revenue Recognition

DoubleDown operates online social casino games and generates revenue from the sale of virtual casino chips within those games. Revenues are recognized ratably over the estimated average period in which the chips are consumed based on historical data analysis. Because DoubleDown is the principal, responsible for all aspects of the casino services and sale of virtual goods to the player, revenues were recorded on a gross basis and payment processing fees paid to Facebook were recorded within cost of gaming operations. This determination is subject to judgment and may change depending on the circumstances surrounding the substance or nature of transactions.

BringIt, Inc.

In February 2012, IGT acquired BringIt, Inc., for its gaming technology and expertise for total cash consideration of $8.1 million allocated primarily to non-deductible goodwill related to non-separable intangibles of $6.7 million and developed technology of $0.8 million. Additionally, IGT agreed to pay $2.0 million contingent on the retention of three key employees over the two years following the acquisition, which was not included in the capitalized purchase price and will be recorded as operating expenses in a separate line for contingent acquisition related costs.

18. DISCONTINUED OPERATIONS

UK Barcrest Group

We sold our UK Barcrest Group in September 2011 and the total consideration remains subject to contingent consideration related to certain customer arrangements and potential indemnification obligations. Additional gain or loss on the sale may be recorded in the future as these outstanding items are resolved. The Barcrest Group results of operations were classified in discontinued operations for all periods presented.

Japan

The results of discontinued operations also included our international operations in Japan, which closed during 2010. The resolution of an outstanding third party contractual dispute related to our Japan operations is still pending.

Summary of Results in Discontinued Operations

	Quarters Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Revenues	$ -	$ 15.3	$ -	$ 28.9
Income before tax	$ -	$ 2.8	$ -	$ 4.0
Income tax provision	-	(0.9)	-	(1.2)
Income from discontinued operations, net of tax	-	1.9	-	2.8
Loss on divestiture before tax	(0.8)	-	(2.4)	-
Income tax benefit	0.3	-	0.9	-
Loss on divestiture, net of tax	(0.5)	-	(1.5)	-
Income (loss) from discontinued operations, net of tax	$ (0.5)	$ 1.9	$ (1.5)	$ 2.8

Summary of Assets and Liabilities of Discontinued Operations

At March 31, 2012 there was $0.2 million in current assets and current liabilities of discontinued operations totaling $5.7 million were presented as a component of other accrued liabilities. At September 31, 2011 $5.7 million was presented as current liabilities of discontinued operations.

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 from the perspective of our company's management. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2011, as well as the accompanying Consolidated Financial Statements and Notes included in Item 1 of this Form 10-Q.

Our MDA is organized into the following sections:

- OVERVIEW
- CONSOLIDATED RESULTS
- BUSINESS SEGMENT RESULTS
- LIQUIDITY AND CAPITAL RESOURCES
- RECENTLY ISSUED ACCOUNTING STANDARDS
- CRITICAL ACCOUNTING ESTIMATES

Unless otherwise indicated in this report:

- International Game Technology, IGT, we, our, or the Company refers to International Game Technology and its consolidated entities
- italicized text with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors, and additional IGT trademark information is available on our website at www.IGT.com
- references to years relate to our fiscal years ending September 30
- current refers to the fiscal periods (second quarter and six months) ended March 31, 2012
- Note refers to the Notes of our Consolidated Financial Statements in Item 1 of this report
- references to EPS are on a diluted basis
- table amounts are presented in millions, except units and EPS
- discussion and analysis relates to results for continuing operations of the current fiscal periods as compared with the prior year fiscal periods

We sometimes refer to the impact of changes in foreign currency exchange rates, which results from translating foreign functional currencies into US dollars, as well as currency transaction remeasurement, for reporting purposes. The impact of foreign currency exchange rate fluctuations represents the difference between current rates and prior period rates applied to current period activity.

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, marketing, and strategic initiatives

- our expected future financial and operational performance
- our strategic and operational plans
- 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
- expected trends in the demand for our products
- mergers, acquisitions and divestitures, including the expected benefits of completed acquisitions and expectations for, possible acquisitions of, or investments in, businesses, products, and technologies
- research and development activities, including anticipated benefits from such activities
- 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, acquisitions, 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 II, 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, development, manufacture, and marketing of electronic gaming equipment and systems products, including online and mobile solutions, for regulated gaming markets and social gaming markets. 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 profit and enhance 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 16.

Industry Update

The gaming industry was and continues to be negatively impacted by reduced discretionary spending from consumers (players), which in turn reduces spending by our customers (casinos & other gaming operators). A weakened global operating environment has resulted in fewer new casino openings and expansions, along with lower replacement demand due to constrained capital budgets. We believe replacement demand will improve as the economy recovers and our customer’s capital budgets are increased. We also expect increased demand from new casino openings and expansions in the long-term, as new gaming markets develop in both land-based and online jurisdictions. As the North America market matures, we believe International markets will offer greater prospects for growth. Although the breadth and timing of these opportunities remains uncertain, we expect to see slight improvement in overall buying demand for 2012 compared to the prior year.

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Strategic Objectives

We continue to partner with our customers in an effort to deliver stronger relationships and innovative gaming products and services. For 2012, we remain focused on the following strategic short-term and long-term objectives designed to improve our business and shareholder value:

Increase Velocity of Revenue Growth by improving global scalability, increasing our international sales presence, and developing games more aligned with local player preferences.

Continuously Improve Operating Margins by expanding global process efficiencies and leveraging operating expenses.

Develop Next Generation Platforms that will extend IGT offerings beyond our historical product and customer set, as well as converge and connect player experiences across multiple distribution channels.

Leverage Cash Flows by investing in future growth and platforms, as well as returning capital to shareholders through dividends and share repurchases.

Energize Interactive Business by securing significant online poker customers and increasing our presence in casino-style social gaming.

DoubleDown

In January 2012, we acquired Seattle based Double Down Interactive LLC., developer and operator of the virtual currency DoubleDown Casino® found on Facebook. DoubleDown has a broad and expanding game portfolio, offering blackjack, slots, slot tournaments, video poker, and roulette to social gamers around the world. This strategic acquisition is expected to establish IGT's position in casino-style social gaming and strengthen our core business with added distribution channels for IGT game content. DoubleDown increased its monthly active users by 24% from December 2011 to March 2012. DoubleDown was presented as a component of North America gaming operations. See Note 17.

Summary of Results

	Quarters Ended March 31, 2012	2011	Favorable (Unfavorable)	Six Months Ended March 31, 2012	2011	Favorable (Unfavorable)
Revenues	$ 541.2	$ 477.0	13 %	$ 986.8	$ 928.2	6 %
Gaming operations	300.4	269.8	11 %	565.0	522.7	8 %
Product sales	240.8	207.2	16 %	421.8	405.5	4 %
Gross profit	$ 313.6	$ 282.6	11 %	$ 565.6	$ 552.0	2 %
Margin	58 %	59 %	-2 %	57 %	59 %	-3 %
Operating income	$ 118.0	$ 128.1	-8 %	$ 217.9	$ 248.3	-12 %
Margin	22 %	27 %	-19 %	22 %	27 %	-19 %
Income from continuing operations	62.4	$ 67.7	-8 %	$ 112.7	$ 140.5	-20 %
Discontinued operations (see Note	(0.5)	1.9	*	(1.5)	2.8	*

18)											
Net income		61.9		69.6	-11	%		111.2		143.3	-22	%
EPS											
Continuing operations	$	0.21	$	0.22	-5	%	$	0.38	$	0.47	-19	%
Discontinued operations		-		0.01	*			(0.01)		0.01	*	
Net income	$	0.21	$	0.23	-9	%	$	0.37	$	0.48	-23	%

Three months ended March 31, 2012 compared to three months ended March 31, 2011

Revenues improved in both gaming operations and product sales. Product sales revenues increased $33.6 million primarily due to increased units recognized (up 13%) and increases in average sales price per unit (up 8%). Increased unit sales were driven primarily by higher replacement demand. Gaming operations revenues increased $30.6 million primarily due to added contributions from our recently acquired interactive businesses of $25.5 million and from installed base growth in lease operations. Interactive businesses acquired included Entraction in late June 2011 and DoubleDown in late January 2012.

Gross margin decline was primarily due to increased costs and product mix changes in both gaming operations and product sales. Cost of gaming operations included $2.3 million for the amortization of acquired intangibles primarily related to DoubleDown.

Operating income decreased primarily due to increased interactive expenses, including additions from recent interactive acquisitions. Operating expenses included $20.1 million of acquisition related charges primarily from DoubleDown and $3.1 million related to a distributor cancellation settlement. Income from continuing operations also benefited from lower interest expense.

For a more in-depth analysis of these results, see CONSOLIDATED AND BUSINESS SEGMENT RESULTS directly following this OVERVIEW.

Six months ended March 31, 2012 compared to six months ended March 31, 2011

Revenues improved in both gaming operations and product sales. Product sales revenues increased $16.3 million primarily due to increased units recognized (up 1%) and increases in average sales price per unit (up 10%). Increased unit sales were driven primarily by higher replacement demand. Gaming operations revenues increased $42.3 million primarily due to added contributions from our recently acquired interactive businesses of $30.1 million and from installed base growth in lease operations.

Gross margin decline was primarily due to increased costs and product mix changes in both gaming operations and product sales. Cost of gaming operations included $2.3 million for the amortization of acquired intangibles primarily related to DoubleDown.

Operating income decreased primarily due to increased interactive expenses, including additions from recent interactive acquisitions. Operating expenses included $21.3 million of acquisition related charges primarily from DoubleDown and $3.1 million related to a distributor cancellation settlement. Income from continuing operations also benefited from lower interest expense, partially offset by prior year investment gains.

For a more in-depth analysis of our these results, see CONSOLIDATED AND BUSINESS SEGMENT RESULTS directly following this OVERVIEW.

CONSOLIDATED RESULTS

	Quarter Ended March 31, 2012	Quarter Ended March 31, 2011	Favorable (Unfavorable) Amount	Favorable (Unfavorable) %	Six Months Ended March 31, 2012	Six Months Ended March 31, 2011	Favorable (Unfavorable) Amount	Favorable (Unfavorable) %
GAMING OPERATIONS								
Installed base	56,100	52,500	3,600	7 %	56,100	52,500	3,600	7 %
North America	42,700	40,500	2,200	5 %	42,700	40,500	2,200	5 %
International	13,400	12,000	1,400	12 %	13,400	12,000	1,400	12 %
Revenues	$ 300.4	$ 269.8	$ 30.6	11 %	$ 565.0	$ 522.7	$ 42.3	8 %
North America	254.7	232.9	21.8	9 %	474.3	450.9	23.4	5 %
International	45.7	36.9	8.8	24 %	90.7	71.8	18.9	26 %
Gross margin	60 %	62 %	(2)	-3 %	61 %	62 %	(1)	-2 %
North America	59 %	61 %	(2)	-3 %	59 %	61 %	(2)	-3 %
International	67 %	71 %	(4)	-6 %	67 %	71 %	(4)	-6 %
PRODUCT SALES								
Units recognized (1)	10,200	9,000	1,200	13 %	17,500	17,300	200	1 %
North America	6,800	5,700	1,100	19 %	10,600	10,800	(200)	-2 %
International	3,400	3,300	100	3 %	6,900	6,500	400	6 %
Units shipped (2)	10,500	8,900	1,600	18 %	17,000	16,400	600	4 %
North America	6,700	5,300	1,400	26 %	10,200	9,800	400	4 %
International	3,800	3,600	200	6 %	6,800	6,600	200	3 %
Revenues	$ 240.8	$ 207.2	$ 33.6	16 %	$ 421.8	$ 405.5	$ 16.3	4 %
North America	160.8	135.0	25.8	19 %	263.9	268.7	(4.8)	-2 %
International	80.0	72.2	7.8	11 %	157.9	136.8	21.1	15 %
Gross margin	55 %	56 %	(1) pp	-2 %	53 %	56 %	(3) pp	-5 %
North America	57 %	55 %	2 pp	4 %	55 %	56 %	(1) pp	-2 %
International	50 %	56 %	(6) pp	-11 %	49 %	55 %	(6) pp	-11 %

(1) correlates with revenues recognized; (2) includes deferred revenue units

Three months ended March 31, 2012 compared with three months ended March 31, 2011

Gaming operations revenues improved in both regional segments mainly due to added contributions from our recently acquired interactive businesses of $25.5 million and from installed base growth in lease operations. Overall, our installed base grew 7%, primarily in lease operations. Gross margin declined primarily due to higher expenses, including depreciation, and a greater mix of interactive and lower-yield units. Jackpot expense decreased $4.1 million, primarily due to variations in slot play, partially offsetting higher expenses.

Product sales revenues increased $33.6 million primarily due to increased units recognized (up 13%) and increases in average sales price per unit (up 8%). Increased unit sales were driven primarily by higher replacement demand. Gross margin declined primarily due to higher international machine costs partially offset by lower North America machine costs, and an overall lower mix of higher margin non-machine sales.

Six months ended March 31, 2012 compared with six months ended March 31, 2011

Gaming operations revenues improved in both regional segments mainly due to added contributions from our recently acquired interactive businesses of $30.1 million and from installed base growth in lease operations. Overall, our installed base grew 7%, primarily in lease operations. Gross margin declined primarily due to higher expenses, including depreciation, and a greater mix of interactive and lower-yield units.

Product sales revenues increased $16.3 million primarily due to increased units recognized (up 1%) and increases in average sales price per unit (up 10%). Increased unit sales were driven primarily by higher replacement demand. Gross margin declined primarily due to higher international machine costs partially offset by lower North America machine costs, and an overall lower mix of higher margin non-machine sales.

Deferred revenue decreased $9.0 million during the first six months of 2012 to $50.1 million at March 31, 2012, primarily related to the completion of obligations under multi-element contracts. During the first six months of 2012, we recognized revenues for 1,200 units previously shipped and 700 units shipped for which revenues were deferred, for a net decrease of 500 units in deferred revenue.

Operating Expenses

	Quarter Ended March 31,		Favorable (Unfavorable)		Six Months Ended March 31,		Favorable (Unfavorable)	
	2012	2011	Amount	%	2012	2011	Amount	%
Selling, general and administrative	$109.3	$89.1	$(20.2)	-23%	$199.1	$171.3	$(27.8)	-16%
Research and development	55.3	48.7	(6.6)	-14%	102.2	97.6	(4.6)	-5%
Depreciation and amortization	19.3	16.7	(2.6)	-16%	34.7	34.8	0.1	-
Contingent acquisition related costs	11.7	-	(11.7)	-	11.7	-	(11.7)	-
Total operating expenses	$195.6	$154.5	$(41.1)	-27%	$347.7	$303.7	$(44.0)	-14%
Percent of revenues	36%	32%			35%	33%		

Three months ended March 31, 2012 compared with three months ended March 31, 2011

Increased operating expense was largely due to initiatives and acquisitions related to our interactive product line of $30.5 million, which included acquisition related charges primarily related to DoubleDown of $11.7 million for contingent retention and earn-out costs, $4.5 million for professional fees, and $3.9 million for the amortization of intangibles. SG&A also included settlement charges of $3.1 million related to the early cancellation of a distributor arrangement. Additionally, operating expenses increased $11.2 million primarily related to higher employee costs, partially offset by lower bad debt provisions (down $3.7 million.) Higher employee costs primarily related to increases in head count, as well as salaries and severance.

Six months ended March 31, 2012 compared with six months ended March 31, 2011