INTERNATIONAL GAME TECHNOLOGY
Form 10-Q
August 08, 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 June 30, 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 August 6, 2012: 267.1 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:
June 30, 2012	June 30, 2012
July 2, 2011	June 30, 2011
October 1, 2011	September 30, 2011

Abbreviation/term	Definition
Anchor	Anchor Gaming
APIC	additional paid-in-capital
ASP	average sales price (machines)
ASR	accelerated share repurchase transaction
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
VWAP	average daily volume weighted average price
WAP	wide area progressive
*	not meaningful (in tables)

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Interim Financial Statements

See accompanying notes

CONSOLIDATED INCOME STATEMENTS

(In millions, except per share amounts)	Quarters Ended June 30, 2012	Quarters Ended June 30, 2011	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2011
Revenues				
Gaming operations	$301.2	$267.4	$866.2	$790.1
Product sales	231.6	221.6	653.4	627.1
Total revenues	532.8	489.0	1,519.6	1,417.2
Costs and operating expenses				
Cost of gaming operations	123.0	102.8	346.0	299.2
Cost of product sales	107.2	97.6	305.4	277.4
Selling, general and administrative	104.9	82.5	303.8	253.8
Research and development	55.1	48.5	157.3	146.1
Depreciation and amortization	21.1	16.8	55.8	51.6
Contingent acquisition related costs	26.0	-	37.8	-
Total costs and operating expenses	437.3	348.2	1,206.1	1,028.1
Operating income	95.5	140.8	313.5	389.1
Other income (expense)				
Interest income	11.0	13.3	33.9	40.0
Interest expense	(30.8)	(30.5)	(90.9)	(101.5)
Other	(1.6)	(1.9)	(6.4)	1.4
Total other income (expense)	(21.4)	(19.1)	(63.4)	(60.1)
Income from continuing operations before tax	74.1	121.7	250.1	329.0
Income tax provision	27.2	29.9	90.5	96.7
Income from continuing operations	46.9	91.8	159.6	232.3
Loss from discontinued operations, net of tax	(0.3)	(4.9)	(1.8)	(2.1)
Net income	$46.6	$86.9	$157.8	$230.2
Basic earnings (loss) per share				
Continuing operations	$0.16	$0.31	$0.54	$0.78
Discontinued operations	-	(0.02)	(0.01)	(0.01)
Net income	$0.16	$0.29	$0.53	$0.77
Diluted earnings (loss) per share				
Continuing operations	$0.16	$0.30	$0.54	$0.77
Discontinued operations	-	(0.01)	(0.01)	-
Net income	$0.16	$0.29	$0.53	$0.77
Cash dividends declared per share	$0.06	$0.06	$0.18	$0.18
Weighted average shares outstanding				
Basic	292.7	299.2	295.6	298.4
Diluted	294.3	300.7	297.2	299.9

See accompanying notes

CONSOLIDATED BALANCE SHEETS

	June 30, 2012	September 30, 2011
Assets		
Current assets		
Cash and equivalents	$241.3	$460.0
Restricted cash and investment securities	84.1	89.6
Restricted cash and investment securities of VIEs	2.1	2.4
Jackpot annuity investments	47.3	48.7
Jackpot annuity investments of VIEs	13.6	14.5
Accounts receivable, net	270.4	320.1
Current maturities of contracts and notes receivable, net	213.0	167.1
Inventories	104.0	73.0
Deferred income taxes	68.8	97.1
Other assets and deferred costs	140.4	137.4
Total current assets	1,185.0	1,409.9
Property, plant and equipment, net	563.7	552.1
Jackpot annuity investments	258.9	271.8
Jackpot annuity investments of VIEs	46.5	52.8
Contracts and notes receivable, net	140.0	126.4
Goodwill	1,463.9	1,231.4
Other intangible assets, net	235.7	170.4
Deferred income taxes	114.1	84.6
Other assets and deferred costs	259.1	255.0
Total Assets	$4,266.9	$4,154.4
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities		
Accounts payable	$100.2	$103.0
Jackpot liabilities, current portion	146.6	143.0
Accrued employee benefits	29.8	38.9
Accrued income taxes	10.6	3.2
Dividends payable	17.1	17.8
Other accrued liabilities	275.5	228.8
Total current liabilities	579.8	534.7
Long-term debt	1,969.8	1,646.3
Jackpot liabilities	338.3	365.4
Other liabilities	267.2	163.2
Total Liabilities	3,155.1	2,709.6
Commitments and Contingencies		
Shareholders' Equity		
Common stock: $.00015625 par value; 1,280.0 shares authorized; 343.4 and 341.9 issued; 272.8 and 297.4 outstanding	0.1	0.1
Additional paid-in capital	1,497.4	1,542.5
Treasury stock at cost: 70.6 and 44.4 shares	(1,252.8)	(855.2)
Retained earnings	868.8	763.8
Accumulated other comprehensive income	(1.7)	(8.8)
Total IGT Shareholders' Equity	1,111.8	1,442.4

Noncontrolling Interests	-	2.4
Total Equity	1,111.8	1,444.8
Total Liabilities and Shareholders' Equity	$4,266.9	$4,154.4

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended June 30, (In millions)	2012	2011
Operating		
Net income	$157.8	$230.2
Adjustments:		
Depreciation and amortization	179.3	167.3
Contingent earn-out consideration	11.1	-
Discounts and deferred issuance costs	30.6	33.6
Share-based compensation	25.4	32.0
Net loss on disposal and impairment	1.5	10.7
Excess tax benefits from employee stock plans	(2.4)	(2.9)
Other non-cash items	6.9	(8.2)
Changes in operating assets and liabilities, excluding acquisitions:		
Receivables	(24.6)	15.1
Inventories	(14.4)	(2.3)
Accounts payable and accrued liabilities	14.5	(46.0)
Jackpot liabilities	(38.5)	(81.0)
Income taxes, net of employee stock plans	(4.1)	73.2
Other assets and deferred costs	(16.1)	27.0
Net operating cash flows	327.0	448.7
Investing		
Capital expenditures	(170.8)	(155.1)
Proceeds from assets sold	20.4	14.7
Jackpot annuity investments, net	36.7	42.8
Changes in restricted cash	6.7	22.9
Loans receivable cash advanced	(0.8)	(0.5)
Loans receivable payments received	22.3	24.4
Proceeds from unconsolidated affiliates	9.2	16.5
Business acquisitions, net of cash acquired	(233.9)	(105.9)
Net investing cash flows	(310.2)	(140.2)
Financing		
Debt proceeds	280.0	95.0
Debt repayments	-	(195.0)
Debt issuance costs	-	(4.4)
Employee stock plan proceeds	12.7	30.5
Excess tax benefits from employee stock plans	2.4	2.9
Share repurchases and forward contracts	(475.1)	(25.0)
Noncontrolling interest acquired	(2.5)	-
Dividends paid	(53.5)	(53.8)
Net financing cash flows	(236.0)	(149.8)
Foreign exchange rates effect on cash and equivalents	0.5	(0.8)
Net change in cash and equivalents	(218.7)	157.9
Beginning cash and equivalents	460.0	158.4
Ending cash and equivalents	$241.3	$316.3

See accompanying notes

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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.

Nine Months Ended June 30,	2012	2011
(In millions)		
Jackpot funding		
Change in jackpot liabilities	$(38.5)	$(81.0)
Jackpot annuity purchases	(8.2)	(3.9)
Jackpot annuity proceeds	44.9	46.7
Net change in jackpot annuity investments	36.7	42.8
Net jackpot funding	$(1.8)	$(38.2)
Capital expenditures		
Property, plant and equipment	$(35.3)	$(10.8)
Gaming operations equipment	(133.2)	(143.2)
Intellectual property	(2.3)	(1.1)
Total	$(170.8)	$(155.1)
Payments		
Interest	$59.2	$74.1
Income taxes	93.3	18.3
Non-cash investing and financing items:		
Accrued capital asset additions	$0.7	$2.0
Interest accretion for jackpot annuity investments	15.0	17.0
Business acquisitions/purchase price adjustments and VIE deconsolidations		
Fair value of assets	$350.5	$131.1
Fair value of liabilities	116.6	25.2

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	June 30, 2012	June 30, 2012
Prior year quarter	July 2, 2011	June 30, 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 June 30, 2012 were prepared without audit on a basis consistent with the comparative third quarter and nine months ended June 30, 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 per share amounts and par value
- current refers to the quarter ended June 30, 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 $11.7 million at June 30, 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 an ASU issued in January 2010 requiring separate disclosure of purchases, sales, issuances, and settlements of fair value instruments within the Level 3 reconciliation. Additionally, in our 2012 second quarter, we adopted an ASU issued in May 2011 amending fair value measurements for US GAAP and IFRS convergence. The adoption of these ASUs did not have a material impact on our financial statements. See Note 8.

Accruals for Casino Jackpot Liabilities

At the beginning of 2012, we adopted an ASU 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.

Recently Issued Accounting Standards or Updates—Not Yet Adopted

Qualitative Impairment Assessment for Goodwill and Other Indefinite-Lived Intangibles

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. In July 2012, the FASB issued an ASU to simplify the impairment testing for other indefinite-lived intangibles in a similar fashion. Both ASUs will be effective for our 2013 first quarter and we are currently evaluating whether we will adopt early, as permitted. These ASUs are 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 Trusts

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 $62.2 million at June 30, 2012 and $69.7 million at September 30, 2011.

Latin America Distributor

In March 2012, we contracted with a third party distributor in Latin America to sell IGT products. The distributor is a VIE as it is unable to finance its activities without additional support from IGT; however, the distributor was not consolidated because IGT does not have contractual or implied control. Under the agreement, our maximum exposure consists of note financing of $0.8 million provided for operating costs and contract financing under a revolving line of credit of $13.0 million for IGT product purchases. We recorded $3.1 million of noncurrent contracts and notes receivable and $2.3 million in revenues related to this distributor as of and for the third quarter ended June 30, 2012.

Investments in Unconsolidated Affiliates

China LotSynergy Holdings, Ltd.

During our 2011 first quarter, we recognized gain of $4.3 million on the sale of our CLS stock investment for net proceeds of $16.5 million. In May 2012, we received final payment of $9.2 million on our CLS convertible note and all related derivatives were adjusted to zero. See Note 8 and 9 for additional information about related fair value assumptions and derivatives.

3. RECEIVABLES

Accounts Receivable

Allowances for Credit Losses	June 30, 2012	September 30, 2011
Total	$ 18.9	$ 17.6

Customer Financing (Contracts and Notes)

	June 30, 2012	September 30, 2011
Recorded Investment (principal and interest due, net of deferred interest and fees)		
Individually evaluated for impairment	$ 131.0	$ 104.2
Collectively evaluated for impairment	292.0	260.7
Total	$ 423.0	$ 364.9
Allowances for Credit Losses		
Individually evaluated for impairment	$ 57.4	$ 58.6
Collectively evaluated for impairment	12.6	12.8
Total	$ 70.0	$ 71.4

Reconciliation of Allowances for Credit Losses	Periods Ended June 30,			
	Quarters		Nine Months	
	2012	2011	2012	2011
Beginning balance	$ 70.5	$ 78.0	$ 71.4	$ 78.4
Charge-offs	-	(8.3)	-	(9.3)
Recoveries	-	-	-	0.4
Provisions	(0.5)	(1.6)	(1.4)	(1.4)
Ending balance	$ 70.0	$ 68.1	$ 70.0	$ 68.1

Current	$	48.1	$	36.4	$	48.1	$	36.4
Non-current	$	21.9	$	31.7	$	21.9	$	31.7

Age Analysis of Recorded Investment	June 30, 2012			September 30, 2011		
	Contracts	Notes	Total	Contracts	Notes	Total
Past Due:						
1-29 days	$6.1	$-	$6.1	$5.3	$2.0	$7.3
30-59 days	3.3	1.4	4.7	2.0	1.8	3.8
60-89 days	2.1	1.4	3.5	1.2	1.8	3.0
Over 90 days	6.0	45.7	51.7	6.3	31.0	37.3
Total past due	$17.5	$48.5	$66.0	$14.8	$36.6	$51.4
Total current (1)	267.7	89.3	357.0	188.1	125.4	313.5
Grand total	$285.2	$137.8	$423.0	$202.9	$162.0	$364.9
Over 90 days and accruing interest	$1.5	$0.1	$1.6	$2.6	$0.1	$2.7
Nonaccrual status (not accruing interest)	45.3	84.8	130.1	24.2	84.0	108.2

(1) includes impaired Alabama notes of $37.5 at June 30, 2012 and $48.8 at September 30, 2011

Recorded Investment by Credit Quality Indicator Using Credit Profile by Internally Assigned Risk Grade

	June 30, 2012			September 30, 2011		
	Contracts	Notes	Total	Contracts	Notes	Total
Low	$113.2	$-	$113.2	$43.9	$-	$43.9
Medium	24.8	6.4	31.2	25.8	0.3	26.1
High (2)	147.2	131.4	278.6	133.2	161.7	294.9
Total recorded investment	$285.2	$137.8	$423.0	$202.9	$162.0	$364.9

(2) includes $84.0 of impaired Alabama notes receivable

Impaired loans	June 30, 2012			September 30, 2011		
	Contracts	Notes	Total	Contracts	Notes	Total
Recorded investment	$4.5	$84.0	$88.5	$5.2	$84.0	$89.2
Unpaid principal face	4.3	85.2	89.5	5.1	85.2	90.3
Related allowance	1.6	55.8	57.4	2.8	55.8	58.6
Average recorded investment	4.9	84.0	88.9	8.8	87.6	96.4
Interest income recognized on impaired loans:						
Quarter-to-date						
Total	$-	$-	$-	$0.2	$-	$0.2
Cash-basis	-	-	-	-	-	-
Year-to-date						
Total	$-	$-	$-	$0.6	$0.3	$0.9
Cash-basis	-	-	-	-	0.3	0.3

4. CONCENTRATIONS OF CREDIT RISK

Receivables By Legal Gaming Region At June 30, 2012		
Nevada	9	%

Alabama	5	
New Jersey	5	
Oklahoma	4	
California	4	
Other (less than 4% individually)	25	
North America	52	%
Argentina	23	%
Europe	6	
Australia	5	
Mexico	4	
Other (less than 4% individually)	10	
International	48	%

5. INVENTORIES

	June 30, 2012	September 30, 2011
Raw materials	$ 51.8	$ 44.1
Work-in-process	3.5	2.4
Finished goods	48.7	26.5
Total	$ 104.0	$ 73.0

6. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2012	September 30, 2011
Land	$ 62.7	$ 62.6
Buildings	235.2	232.8
Leasehold improvements	16.2	17.3
Machinery, furniture and equipment	290.5	248.6
Gaming operations equipment	810.1	812.9
Total	1,414.7	1,374.2
Less accumulated depreciation	(851.0)	(822.1)
Property, plant and equipment, net	$ 563.7	$ 552.1

7. GOODWILL AND OTHER INTANGIBLES

Goodwill

Activity By Segment For the Nine Months Ended June 30, 2012	North America	International	Total
Beginning balance	$1,042.8	$188.6	$1,231.4
Acquisitions (see Note 17)	232.8	-	232.8
Foreign currency adjustments	-	(0.3)	(0.3)
Ending balance	$1,275.6	$188.3	$1,463.9

Other Intangibles

Additions For the Nine Months Ended June 30, 2012	Business Combinations (See Note 17)	Other Additions	Weighted Average Life (Years)
Patents (including capitalized legal costs)	$-	$1.0	4
Developed technology	51.8	-	6
Customer relationships	47.3	-	4
Trademarks	10.9	-	5
Reaquired rights	-	1.3	2
Total	$110.0	$2.3	

Ending Balances	June 30, 2012 Cost	June 30, 2012 Accumulated Amortization	June 30, 2012 Net	September 30, 2011 Cost	September 30, 2011 Accumulated Amortization	September 30, 2011 Net
Patents	$379.9	$ 288.8	$91.1	$382.8	$ 270.5	$112.3
Developed technology	131.1	56.9	74.2	86.9	54.0	32.9
Contracts	23.5	20.3	3.2	25.5	19.5	6.0
Reacquired rights	14.8	3.2	11.6	13.4	2.1	11.3
Customer relationships	60.8	15.5	45.3	14.2	6.9	7.3
Trademarks	12.5	2.2	10.3	2.1	1.5	0.6
Total	$622.6	$ 386.9	$235.7	$524.9	$ 354.5	$170.4

	Periods Ended June 30, Third Quarter 2012	Third Quarter 2011	Nine Months 2012	Nine Months 2011	Future Annual Estimates 2012	2013	2014	2015	2016
Aggregate Amortization	$ 17.6	$ 11.1	$ 44.8	$ 34.3	$ 62.6	$ 65.2	$ 57.5	$ 42.2	$ 26.8

8. FAIR VALUE MEASUREMENTS

Financial Assets (Liabilities) Carried at Fair Value

	Fair Value	Level 1	Level 2	Level 3
June 30, 2012				
Money market funds	$74.6	$74.6	$-	$-
Derivative assets	108.8	-	108.8	-
Derivative liabilities	(111.9)	-	(111.9)	-
Acquisition contingent consideration payable	(100.0)	-	-	(100.0)
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.

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 (10% - 79%) to each scenario, as well as a risk-adjusted discount rate of 19%, to derive the estimated fair value at June 30, 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 liabilities, $32.0 million current and $68.0 million noncurrent. An increase of $11.1 million to the payable fair value was recorded during the third quarter to contingent acquisition related costs on the income statement along with $14.9 million of accrued retention plan compensation. Changes in fair value were primarily due to the time-value of money and updated probability-weighted internal earnings projections. See Note 17.

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

Nine Months Ended June 30,	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	(0.7)	-	(2.1)
Other comprehensive income	-	-	0.6
Issuances	-	(88.9)	-
Accretion (interest and fair value adjustment)	0.6	(11.1)	1.7
Settlements	(9.2)	-	-
Ending balance	$-	$(100.0)	$21.5
Net change in unrealized gain (loss) included in earnings related to instruments still held	$-	$-	$(2.1)

Financial Assets (Liabilities) Not Carried at Fair Value

	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Unrealized Gain (Loss)
June 30, 2012						
Jackpot investments	$366.3	$434.1	$434.1	$-	$-	$67.8
Contracts & notes receivable	353.0	337.5	-	-	337.5	(15.5)
Jackpot liabilities	(484.9)	(510.0)	-	-	(510.0)	(25.1)
Debt	(1,858.3)	(2,129.1)	(1,849.2)	(279.9)	-	(270.8)
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 (1.65%) for the estimated funding rate and the 10-year credit default swap rate (1.80%) 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 (.48%) for the current amounts and the 1-year treasury yield curve rate (.21%) with the 2-year credit default swap rate (.77%) 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.

The majority of our debt was level 1 and valued using quoted market prices or dealer quotes for the identical financial instrument when traded as an asset in an active market. Outstanding borrowings under our revolving credit facility were level 2 and fair value was determined using DCF of expected payments at current borrowing rates. Carrying values in the table 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 $19.1 million at June 30, 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. These contracts were terminated in May 2012 with the final payment received on the CLS convertible note.

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.

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	June 30, 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	0.4	-
Designated Hedges		
Interest rate swaps: Other assets and deferred costs (noncurrent)	108.7	90.4
Interest rate swaps: Long-term debt	111.5	93.2

	Periods Ended June 30,			
	Quarters		Nine Months	
Income Statement Location and Gain (loss)	2012	2011	2012	2011
Non-designated Hedges				
Foreign currency contracts: Other income (expense)	$-	$1.5	$0.6	$2.8
Designated Hedges				
Interest rate swap - ineffectiveness: Other income (expense)	$(0.8)	$(2.3)	$0.1	$(2.6)
Interest rate swap - effectiveness: Interest expense	5.6	6.3	17.8	15.7

10. CREDIT FACILITIES AND INDEBTEDNESS

Total Outstanding debt

	June 30, 2012	September 30, 2011
Credit facilities	$ 280.0	$ -
3.25% Convertible Notes	850.0	850.0
7.5% Bonds	500.0	500.0
5.5% Bonds	300.0	300.0
Total principal debt obligations	1,930.0	1,650.0
Discounts:		
3.25% Convertible Notes	(68.6)	(93.5)
7.5% Bonds	(2.1)	(2.3)
5.5% Bonds	(1.0)	(1.1)
Swap fair value adjustments:		
7.5% Bonds	72.1	61.8
5.5% Bonds	39.4	31.4
Total outstanding debt, net	$ 1,969.8	$ 1,646.3

IGT was compliant with all covenants and embedded features required no bifurcation at June 30, 2012.

Credit Facilities

At June 30, 2012, $280.0 million was outstanding under our domestic credit facility, $446.5 million was available, and $23.5 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

	Periods Ended June 30,			
	Quarters		Nine Months	
	2012	2011	2012	2011
Contractual interest expense	$ 6.9	$ 6.9	$ 20.7	$ 20.7
Discount amortization	8.5	7.7	24.9	22.8
Remaining discount amortization period	1.9 years			

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. Except as otherwise stated below, we have concluded that we cannot estimate the reasonably possible loss or range of loss, including reasonably possible losses in excess of amounts already accrued, for each specific matter disclosed below. 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 denied 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 remained 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 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 a 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 alleged that the “BALLY POWER BONUSING™” technology infringed one or more of the claims of the asserted IGT patents. 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 denied 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”), were 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 agreed that Bally's counterclaim for a declaratory judgment on invalidity of the '983 patent would 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 subsequently entered into an arbitration proceeding regarding Aristocrat's payment of royalties under the license agreement, which was concluded in IGT's favor in June 2012.

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. On March 30, 2012 the Court issued an order of preliminary approval and the settlement was paid into escrow by insurance in April 2012. A hearing for final approval of the settlement by the Court has been scheduled for October 4, 2012.

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. On April 3, 2012, the plaintiff appealed to the US Court of Appeals for the Ninth Circuit.

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 June 30, 2012 totaled $19.6 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 June 30, 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 $8.9 million at June 30, 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.

Nine Months Ended June 30,	2012	2011
Beginning balance	$ 6.2	$ 9.3
Reduction for payments made	(4.7)	(5.1)
Accrual for new warranties issued	6.4	6.5

Adjustments for pre-existing warranties		(3.3	)		(2.8	)
Ending balance	$	4.6		$	7.9	

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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 nine months ended June 30, 2012 increased to 36.2% from 29.4% for the same prior year period. The prior year effective tax rate was positively impacted by the reduction in UTB interest and penalties, 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 partially offset by a reduction in transfer pricing reserves.

At June 30, 2012, our gross UTBs totaled $111.0 million, excluding related accrued interest and penalties of $21.8 million. At June 30, 2012, $76.5 million of our UTBs, including related accrued interest and penalties, would affect our effective tax rate if recognized. During the nine months ended June 30, 2012, our UTBs decreased $5.4 million and related interest and penalties increased $1.7 million.

We are currently under audit by the IRS for amended returns filed for 1999, 2006 and 2007 as well as both the originally filed and amended 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 Nine Months Ended June 30, 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	(770)	12.11		
Forfeited	(550)	16.50		
Expired	(1,555)	27.35		
Outstanding at end of period	12,664	$ 18.26	6.1	$ 12.8
Vested and expected to vest	12,424	$ 18.30	6.1	$ 12.6
Exercisable at end of period	7,635	$ 19.79	4.9	$ 7.8

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	2,781	15.09		
Vested	(687)	16.55		
Forfeited	(589)	14.49		
Outstanding at end of period	4,893	$ 14.97	1.6	$ 77.1
Expected to vest	4,584	$ 14.97	1.6	$ 72.2

Other Information	
Shares available for future grant (million)	27.8
Unrecognized costs for outstanding awards (million)	$ 75.8
Weighted average future recognition period (years)	1.8

14. EARNINGS PER SHARE

	Periods Ended June 30, Quarters		Nine Months	
	2012	2011	2012	2011
Income from continuing operations available to common shares	$46.9	$91.8	$159.6	$232.3
Basic weighted average shares outstanding	292.7	299.2	295.6	298.4
Dilutive effect of non-participating share-based awards	1.6	1.5	1.6	1.5
Diluted weighted average common shares outstanding	294.3	300.7	297.2	299.9
Basic EPS from continuing operations	$0.16	$0.31	$0.54	$0.78
Diluted EPS from continuing operations	$0.16	$0.30	$0.54	$0.77
Weighted average shares excluded from diluted EPS because the effect would be anti-dilutive:				
Share-based awards	10.8	14.8	11.4	15.4
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

Accelerated Share Repurchase

We use share repurchases to increase shareholder value and to reduce outstanding share count dilution. Negotiated share repurchase transactions are used to achieve timing, cost, and volume objectives. Designed to combine the immediate share retirement benefits of a tender offer with the market impact and pricing benefits of a disciplined daily open market share repurchase program, an ASR guarantees repurchase of a large number of shares while limiting our price risk with a cap feature. The number of shares to be repurchased is generally based on the daily VWAP of our common stock during the transaction term, less a discount, subject to a cap.

On June 13, 2012, we executed an ASR transaction with Goldman, Sachs & Co. such that IGT paid Goldman $400.0 million on June 19, 2012 and Goldman delivered 21.0 million shares to IGT in June 2012, 1.8 million shares in July 2012, and 4.0 million shares on August 6, 2012, resulting in 26.8 million shares delivered to date. Upon final settlement of the ASR, we may receive additional shares or pay additional cash or shares (at our option), based on the VWAP over a period of approximately three to six months. Increases in the VWAP during the remaining ASR term will decrease the shares to be delivered to us by Goldman, and/or could result in cash or shares delivered by us to Goldman, subject to a minimum number of shares delivered. Decreases in the daily VWAP during the remaining ASR term will increase the shares to be delivered to us by Goldman. The ASR is subject to customary termination and adjustment provisions following the occurrence of specified events, including major corporate transactions such as announcements of mergers and acquisitions.

The shares delivered were accounted for as treasury share repurchases that reduced the outstanding common shares used to calculate EPS. As of June 30, 2012, $320 million was recorded as treasury stock and $80 million was recorded in APIC for a 20% holdback, which will be reclassified from APIC to treasury stock as the remaining shares are delivered. The final settlement provision was recorded as a forward contract within equity at the execution date with a zero fair value. Upon final settlement, outstanding shares will be adjusted to reflect the final shares delivered by IGT or Goldman. Amounts settled in cash by IGT, if any, will be recorded to treasury stock.

15. OTHER COMPREHENSIVE INCOME

	Periods Ended June 30,			
	Quarters		Nine Months	
	2012	2011	2012	2011
Net income	$ 46.6	$ 86.9	$ 157.8	$ 230.2
Currency translation adjustments	(12.2)	(0.4)	7.2	9.1
Investment unrealized gains (losses)	0.2	(0.4)	(0.1)	0.1
Comprehensive income	$ 34.6	$ 86.1	$ 164.9	$ 239.4

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

	Periods Ended June 30,			
	Quarters		Nine Months	
	2012	2011	2012	2011
NORTH AMERICA				
Revenues	$ 416.0	$ 364.0	$ 1,154.2	$ 1,083.7
Gaming operations	255.9	228.1	730.2	679.0
Product sales	160.1	135.9	424.0	404.7
Gross profit	243.9	214.2	671.4	640.0
Gaming operations	154.2	138.9	435.3	414.2
Product sales	89.7	75.3	236.1	225.8
Operating income	103.7	122.5	319.2	357.2
INTERNATIONAL				
Revenues	$ 116.8	$ 125.0	$ 365.4	$ 333.5
Gaming operations	45.3	39.3	136.0	111.1
Product sales	71.5	85.7	229.4	222.4
Gross profit	58.7	74.4	196.8	200.6
Gaming operations	24.0	25.7	84.9	76.7
Product sales	34.7	48.7	111.9	123.9
Operating income	16.6	43.5	76.9	105.1
CORPORATE (unallocated)				
Operating expenses	$ (24.8)	$ (25.2)	$ (82.6)	$ (73.2)
CONSOLIDATED				
Revenues	$ 532.8	$ 489.0	$ 1,519.6	$ 1,417.2
Gaming operations	301.2	267.4	866.2	790.1
Product sales	231.6	221.6	653.4	627.1
Gross profit	302.6	288.6	868.2	840.6
Gaming operations	178.2	164.6	520.2	490.9
Product sales	124.4	124.0	348.0	349.7
Operating income	95.5	140.8	313.5	389.1

17. BUSINESS ACQUISITIONS

Pro forma information was not provided, as the following 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 $88.9 million, as adjusted during our 2012 third quarter from $90.7 million, for the earn-out consideration at the acquisition date was included in the capitalized purchase price of $339.8 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 $226.1 million related to non-separable intangibles and is deductible for tax purposes
- liabilities of $2.7 million

Professional fees recorded in administrative operating expenses for this acquisition totaled $5.5 million through June 30, 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

	Periods Ended June 30,			
	Quarters		Nine Months	
	2012	2011	2012	2011
Revenues	$-	$16.1	$-	$45.0
Income before tax	$-	$0.4	$-	$4.4
Income tax provision (benefit)	-	(0.9)	-	(2.1)
Income (loss) from discontinued operations, net of tax	-	(0.5)	-	2.3
Loss on divestiture before tax	-	(10.7)	(2.4)	(10.7)
Income tax provision (benefit)	(0.3)	6.3	0.6	6.3
Loss on divestiture, net of tax	(0.3)	(4.4)	(1.8)	(4.4)
Loss from discontinued operations, net of tax	$(0.3)	$(4.9)	$(1.8)	$(2.1)

Summary of Assets and Liabilities of Discontinued Operations

Current liabilities of discontinued operations, presented as a component of other accrued liabilities, totaled $5.5 million at June 30, 2012 and $5.7 million at September 30, 2011.

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 EXPENSES
- 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 (third quarter and nine months) ended June 30, 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, tax rates, and liabilities
- 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 continues to be negatively impacted by reduced discretionary spending from consumers (players), which in turn reduces spending by our customers (casinos & other gaming operators). An inconsistent global economic recovery has resulted in a slow rate of new casino openings and expansions, along with increased competitive pressures in replacement demand due to constrained capital budgets. We believe replacement demand will improve as the economy recovers and our customers' 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. Although the breadth and timing of these opportunities and risks remains uncertain, we expect slight year-over-year improvement in overall buying demand for 2012.

As the North America market matures, we believe International markets will offer greater prospects for growth. Our business activities in certain jurisdictions have been more challenging than anticipated. In some regions, we face governmental restrictions that have caused delays in product delivery, the recognition of revenue, and the repatriation of cash. In addition, our online real-money wagering business in Europe has faced unexpected challenges, including regulatory and tax, that may cause us to evaluate alternative approaches to the operation of that business.

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 platforms and 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 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 monthly active users have increased by 16% from

December 2011 to June 2012. DoubleDown was presented as a component of North America gaming operations. See Note 17.

Summary of Consolidated Results of Operations

	Periods Ended June 30,					
	Third Quarter			Nine Months		
	2012	2011	Change	2012	2011	Change
Units						
Gaming operations installed base	56,900	53,300	7 %	56,900	53,300	7 %
Product sales recognized (1)	11,600	8,900	30 %	29,100	26,200	11 %
Product sales shipped (2)	12,600	8,300	52 %	29,600	24,800	19 %
Revenues	$ 532.8	$ 489.0	9 %	$ 1,519.6	$ 1,417.2	7 %
Gaming operations	301.2	267.4	13 %	866.2	790.1	10 %
Product sales	231.6	221.6	5 %	653.4	627.1	4 %
Gross Margin	57 %	59 %	-3 %	57 %	59 %	-3 %
Gaming operations	59 %	62 %	-5 %	60 %	62 %	-3 %
Product sales	54 %	56 %	-4 %	53 %	56 %	-5 %
Operating income	$ 95.5	$ 140.8	-32 %	$ 313.5	$ 389.1	-19 %
Margin	18 %	29 %	-38 %	21 %	27 %	-22 %
Income from continuing operations	$ 46.9	$ 91.8	-49 %	$ 159.6	$ 232.3	-31 %
Discontinued operations	(0.3)	(4.9)	*	(1.8)	(2.1)	*
Net income	46.6	86.9	-46 %	157.8	230.2	-31 %
EPS						
Continuing operations	$ 0.16	$ 0.30	-47 %	$ 0.54	$ 0.77	-30 %
Discontinued operations	-	(0.01)	*	(0.01)	-	*
Net income	$ 0.16	$ 0.29	-45 %	$ 0.53	$ 0.77	-31 %

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

Third quarters ended June 30, 2012 and 2011 compared

Revenues improved in both gaming operations and product sales. Gaming operations revenues increased $33.8 million, primarily due to added contributions of $34.2 million from our recently acquired interactive businesses (Entraction in late June 2011 and DoubleDown in late January 2012). Gaming operations installed base expansion, primarily in lease operations, was offset by lower combined yields due to the increasing mix of lower-yield stand-alone units, as well as decreased performance and increased discounting in Megajackpots®. Product sales revenues increased $10.0 million primarily due to increased units recognized, up 30% driven by higher demand for both new/expansion and replacement units.

Gross margin decline in gaming operations was primarily due to lower combined yield in our installed base and the inclusion of lower-margin interactive businesses. Additionally, cost of gaming operations was negatively impacted by higher depreciation and royalties with the infusion of new branded product, as well as additional amortization of $1.7 million related to acquired interactive developed technology. Gross margin decline in product sales was primarily due to a lower machine ASP, down 11% mainly related to an increased mix of lower-priced lottery and used units, as well as a lesser mix of higher-margin systems and parts in non-machine sales.

Operating income decrease was primarily the result of increased operating costs, largely due to additional investment in emerging interactive markets and technology, as well as competitive pressure reflected in lower Megajackpots® yields. Operating expenses related to interactive initiatives, including additions from Entraction and DoubleDown, increased $49.6 million, of which acquisition related charges (primarily from DoubleDown) totaled $30.8 million, mostly related to contingent retention bonus and earn-out liability accruals. Other operating expenses increased 7% primarily due to higher bad debt provisions in part because of a prior year credit and incremental costs related to severance and additional employees.

Income from continuing operations was also negatively impacted by lower interest income on a lower-rate portfolio of receivables and investments.

Nine months ended June 30, 2012 and 2011 compared

Revenues improved in both gaming operations and product sales. Gaming operations revenues increased $76.1 million primarily due to added contributions of $64.4 million from acquired interactive businesses, as well as installed base growth mostly in lease operations. Product sales revenues increased $26.3 million primarily due to increased units recognized, up 11% driven by higher demand for both new/expansion and replacement units, and increased machine ASP (up 2%).

Gross margin decline in gaming operations was primarily due to lower combined yield in our installed base, as well as the inclusion of lower-margin interactive businesses. Additionally, cost of gaming operations was negatively impacted by higher depreciation and royalties due to the infusion of new branded product and additional amortization of $4.0 million related to acquired interactive developed technology. Gross margin decline in product sales was primarily due to a lesser mix of higher-margin parts and systems in non-machine sales, as well as higher International machine rework and parts costs.

Operating income decreased primarily due to increased investment of $85.4 million in emerging interactive markets and technology, including additions from Entraction and DoubleDown. Interactive operating expenses included acquisition related charges primarily from DoubleDown of $52.2 million, mostly related to contingent retention bonus and earn-out liability accruals. Other operating expenses increased 4% primarily due to incremental costs related to severance and additional employees.

Income from continuing operations was also negatively impacted by increased foreign currency losses and lower investment gain, as well as decreased interest income, partially offset by lower interest expense on lower borrowings. Decreased interest income primarily related to a lower-rate portfolio of receivables and investments.

Additional analysis of our results is included in the sections that follow this OVERVIEW.

CONSOLIDATED EXPENSES

Operating Expenses

	Periods Ended June 30,							
	Quarters				Nine Months			
	2012	2011	Change		2012	2011	Change	
Selling, general and administrative	$ 104.9	$ 82.5	$ (22.4)	-27 %	$ 303.8	$ 253.8	$ (50.0)	-20 %
Research and development	55.1	48.5	(6.6)	-14 %	157.3	146.1	(11.2)	-8 %
Depreciation and amortization	21.1	16.8	(4.3)	-26 %	55.8	51.6	(4.2)	-8 %
Contingent acquisition related costs	26.0	-	(26.0)	-	37.8	-	(37.8)	-
Total operating expenses	$ 207.1	$ 147.8	$ (59.3)	-40 %	$ 554.7	$ 451.5	$ (103.2)	-23 %
Percent of revenues	39 %	30 %			37 %	32 %		

Third quarters ended June 30, 2012 and 2011 compared

Increased operating expenses were largely due to additional investment in emerging interactive markets and technology. Operating expenses related to interactive initiatives, including additions from Entraction and DoubleDown, increased $49.6 million, of which acquisition related charges (primarily from DoubleDown) totaled $30.8 million, comprised of contingent employee retention bonuses ($14.9 million) and earn-out valuation adjustment ($11.1 million), amortization of acquired intangibles ($4.7 million), and professional consulting fees. Other operating expenses increased 7% primarily due to bad debt provisions which increased $4.7 million in part because of a prior year credit, and incremental costs related to severance and additional employees.

Nine months ended June 30, 2012 and 2011 compared

Increased operating expenses were largely due to additional investment in emerging interactive markets and technology. Operating expenses related to interactive initiatives, including additions from Entraction and DoubleDown, increased $85.4 million, of which acquisition related charges (primarily from DoubleDown) totaled $52.2 million, comprised of contingent employee retention bonuses ($26.7 million) and earn-out valuation adjustment ($11.1 million), amortization of acquired intangibles ($8.6 million), and professional consulting fees ($5.8 million). Other operating expenses increased 4% primarily due to incremental costs related to severance and additional employees, as well as settlement charges of $3.1 million related to the early termination of a distributor arrangement.

Other Income (Expense)

	Periods Ended June 30,							
	Quarters				Nine Months			
	2012	2011	Change		2012	2011	Change	
Interest Income	$ 11.0	$ 13.3	$ (2.3)	-17 %	$ 33.9	$ 40.0	$ (6.1)	-15 %
WAP investments	4.8	5.5	(0.7)	-13 %	15.1	17.0	(1.9)	-11 %
Receivables and investments	6.2	7.8	(1.6)	-21 %	18.8	23.0	(4.2)	-18 %
Interest Expense	(30.8)	(30.5)	(0.3)	-1 %	(90.9)	(101.5)	10.6	10 %
WAP jackpot liabilities	(4.8)	(5.5)	0.7	13 %	(15.0)	(17.0)	2.0	12 %
Borrowings	(17.8)	(17.5)	(0.3)	-2 %	(51.8)	(62.5)	10.7	17 %
Convertible debt equity discount	(8.2)	(7.5)	(0.7)	-9 %	(24.1)	(22.0)	(2.1)	-10 %
Other	(1.6)	(1.9)	0.3	*	(6.4)	1.4	(7.8)	*
Total other income (expense), net	$ (21.4)	$ (19.1)	$ (2.3)	-12 %	$ (63.4)	$ (60.1)	$ (3.3)	-5 %

Third quarters ended June 30, 2012 and 2011 compared

The unfavorable variance in total other income (expense) was primarily due to decreased interest income on a lower-rate portfolio of receivables and investments.

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

Nine months ended June 30, 2012 and 2011 compared

The unfavorable variance in total other income (expense) was primarily due to increased foreign currency losses (up $7.4 million), lower investment gains, and reduced interest income, partially offset by decreased interest expense on lower borrowings. Interest income decreased on a lower-rate portfolio of receivable and investments. Prior year other income included $4.3 million of gain on the sale of our CLS equity investment.

Income Tax Provision (See Note 12)

	Periods Ended June 30,					
	Quarters			Nine Months		
	2012	2011	Change	2012	2011	Change
Income tax provision	$ 27.2	$ 29.9	$ 2.7	$ 90.5	$ 96.7	$ 6.2
Effective tax rate	36.7 %	24.6 %	(12.1) pp	36.2 %	29.4 %	(6.8) pp

Our 2012 effective tax rate on income from continuing operations increased largely due to changes in certain discrete tax items. The 2011 provision included favorable discrete tax items of $15.1 million resulting from a reduction in UTB interest and penalties and $7.0 million related to our manufacturing deduction and retroactive reinstatement of the R&D tax credit. In addition, the 2012 provision was negatively impacted by losses in foreign jurisdictions for which there were no associated tax benefits and the expiration of the R&D tax credit, partially offset by a $2.8 million reduction in transfer pricing reserves.

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

BUSINESS SEGMENT RESULTS (See Note 16)

NORTH AMERICA

	Periods Ended June 30,							
	Quarters				Nine Months			
	2012	2011	Change		2012	2011	Change	
GAMING OPERATIONS								
Installed base (units)	43,400	40,700	2,700	7 %	43,400	40,700	2,700	7 %
MegaJackpots® (premium brand)	24,200	23,500	700	3 %	24,200	23,500	700	3 %
Lease (CDS, racino, other)	19,200	17,200	2,000	12 %	19,200	17,200	2,000	12 %
Double Down Average User Statistics*								
Daily users	1.4				1.4			
Monthly users	5.2				5.1			
Revenues	$ 255.9	$ 228.1	$ 27.8	12 %	$ 730.2	$ 679.0	$ 51.2	8 %
Gross margin	60 %	61 %	(1) pp	-2 %	60 %	61 %	(1) pp	-2 %
PRODUCT SALES								
Machine units recognized	8,200	4,900	3,300	67 %	18,800	15,700	3,100	20 %
Machine units shipped	8,700	4,500	4,200	93 %	18,900	14,400	4,500	31 %
New/expansion	3,100	600	2,500	417 %	5,400	3,500	1,900	54 %
Replacement	5,600	3,900	1,700	44 %	13,500	10,900	2,600	24 %
Revenues	$ 160.1	$ 135.9	$ 24.2	18 %	$ 424.0	$ 404.7	$ 19.3	5 %
Machines	107.8	70.4	37.4	53 %	268.3	223.8	44.5	20 %
Non-machine (systems, parts, other)	52.3	65.5	(13.2)	-20 %	155.7	180.9	(25.2)	-14 %
Gross margin	56 %	55 %	1 pp	2 %	56 %	56 %	- pp	-
TOTAL REVENUES	$ 416.0	$ 364.0	$ 52.0	14 %	$ 1,154.2	$ 1,083.7	$ 70.5	7 %
Gross Margin	59 %	59 %	- pp	-	58 %	59 %	(1) pp	-2 %
OPERATING INCOME	$ 103.7	$ 122.5	$ (18.8)	-15 %	$ 319.2	$ 357.2	$ (38.0)	-11 %
Margin	25 %	34 %	(9) pp	-26 %	28 %	33 %	(5) pp	-15 %

* as a single application with multiple games, active users equal unique users

Third quarters ended June 30, 2012 and 2011 compared

North America gaming operations revenues increased $27.8 million primarily due to interactive contributions from DoubleDown. Installed base expansion, largely in lease operations, was offset by lower combined yield due to the increasing mix of lower-yield stand-alone units, as well as decreased performance and increased discounting in Megajackpots®. Gross margin decline was primarily due to lower combined yield and higher depreciation and royalties with the infusion of new branded product, as well as additional amortization of $1.7 million related to DoubleDown developed technology.

North America product sales revenues increased $24.2 million primarily due to increased units recognized, partially offset by lower machine ASP and lower systems sales. Machine units increased 67% driven by higher demand for both new/expansion and replacement units. Machine ASP decreased 9% driven by an increased mix of lottery and used units that generally carry lower prices and a lesser mix of premium priced MLD units. Gross margin improvement was primarily due to lower machine costs related to favorable production volumes.

North America operating income decrease was primarily the result of increased operating costs, largely due to additional investment in emerging interactive markets and technology, as well as competitive pressure reflected in lower Megajackpots® yields. Operating expenses related to interactive initiatives, primarily from DoubleDown, increased $41.8 million including contingent employee retention bonus and earn-out liability accruals of $26.0 million and intangible amortization of $4.7 million. Other operating expenses increased 7% primarily due to higher bad debt provisions in part because of a prior year credit and incremental costs related to severance and additional employees.

Nine months ended June 30, 2012 and 2011 compared

North America gaming operations revenues increased $51.2 million primarily due to added contributions from DoubleDown. Installed base expansion, largely in lease operations, was offset by lower combined yield in our installed base. Gross margin decline was primarily due to lower combined yield and higher depreciation and royalties with the infusion of new branded product, as well as additional amortization of $4.0 million related to DoubleDown developed technology.

North America product sales revenues increased $19.3 million primarily due to increased machine units recognized, partially offset by lower non-machine sales. Machine units increased 20% driven by higher demand for both new/expansion and replacement units. Non-machine revenues decreased $25.2 million primarily due to lower Advantage® systems sales and fewer promotional parts conversion kits. Gross margin was flat, as higher discounts and unfavorable product mix were offset by lower machine costs due to favorable production volumes.

Quarterly replacement units can vary widely depending on the timing of customer needs and the level of promotional programs we offer. We expect our 2012 full year replacement units will be approximately flat to slightly improved over 2011.

North America operating income decrease was primarily the result of increased operating costs, largely due to additional investment in emerging interactive markets and technology. Operating expenses related to interactive initiatives, primarily from DoubleDown, increased $66.3 million including contingent employee retention bonus and earn-out liability accruals of $37.8 million and intangible amortization of $8.6 million. Other operating expenses increased 2% primarily due to incremental costs related to severance and additional employees.

INTERNATIONAL

	Periods Ended June 30,							
	Quarters				Nine Months			
	2012	2011	Change		2012	2011	Change	
GAMING OPERATIONS								
Installed base (units)	13,500	12,600	900	7 %	13,500	12,600	900	7 %
MegaJackpots® (Premium brand)	3,200	4,000	(800)	-20 %	3,200	4,000	(800)	-20 %
Lease	10,300	8,600	1,700	20 %	10,300	8,600	1,700	20 %
Revenues	$ 45.3	$ 39.3	$ 6.0	15 %	$ 136.0	$ 111.1	$ 24.9	22 %
Gross margin	53 %	65 %	(12) pp	-18 %	62 %	69 %	(7) pp	-10 %
PRODUCT SALES								
Machine units recognized	3,400	4,000	(600)	-15 %	10,300	10,500	(200)	-2 %
Machine units shipped	3,900	3,800	100	3 %	10,700	10,400	300	3 %
New/expansion	1,100	1,400	(300)	-21 %	4,400	4,500	(100)	-2 %
Replacement	2,800	2,400	400	17 %	6,300	5,900	400	7 %
Revenues	$ 71.5	$ 85.7	$ (14.2)	-17 %	$ 229.4	$ 222.4	$ 7.0	3 %
Machines	51.4	66.3	(14.9)	-22 %	167.7	162.6	5.1	3 %

Non-machine (systems, parts, other)	20.1	19.4	0.7	4 %	61.7	59.8	1.9	3 %
Gross margin	49 %	57 %	(8) pp	-14 %	49 %	56 %	(7) pp	-13 %
TOTAL REVENUES	$ 116.8	$ 125.0	$ (8.2)	-7 %	$ 365.4	$ 333.5	$ 31.9	10 %
Gross Margin	50 %	60 %	(10) pp	-17 %	54 %	60 %	(6) pp	-10 %
OPERATING INCOME	$ 16.6	$ 43.5	$ (26.9)	-62 %	$ 76.9	$ 105.1	$ (28.2)	-27 %
Margin	14 %	35 %	(21) pp	-60 %	21 %	32 %	(11) pp	-34 %

Third quarters ended June 30, 2012 and 2011 compared

International gaming operations revenues increased $6.0 million, of which $4.5 million was due to interactive additions primarily from Entraction and $1.5 million was from our installed base. Expansion in our lease operations installed base was partially offset by decreases in MegaJackpots® units and lower combined yields. Changes in foreign currency exchange negatively impacted gaming operations revenues by $2.5 million. Gaming operations gross margin declined primarily due to a greater mix of lower-margin interactive business, as well as lower yields and higher depreciation, royalties, and service costs related to the infusion of new product in our installed base.

International product sales revenues decreased $14.2 million on 15% fewer machine units recognized and lower machine ASP (down 9%) resulting from increased used sales and higher discounts. Lower units shipped into South America and Europe were offset by increased shipments into Australia, Asia, and Mexico. Changes in foreign currency exchange negatively impacted product sales revenues by $2.2 million. Gross margin decline was primarily due to higher parts and machine rework costs and lower ASP.

International operating income decrease was primarily the result of increased operating costs, largely due to additional investment in emerging interactive markets and technology, as well as lower product sales volume and competitive pressure reflected in lower Megajackpots® yields. Operating expenses related to interactive initiatives increased $7.8 million, primarily from the addition of Entraction. Other operating expenses increased 11% primarily due to higher bad debt provisions in part because of a prior year credit.

Nine months ended June 30, 2012 and 2011 compared

International gaming operations revenues increased $24.9 million, of which $14.7 million was due to interactive additions primarily from Entraction and $10.2 million was from our installed base growth combined with higher yield related to performance improvement in lease operations. Changes in foreign currency exchange negatively impacted gaming operations revenues by $5.6 million. Installed base expansion in lease operations was partially offset by decreases in MegaJackpots® units. Gaming operations gross margin declined primarily due to a greater mix of lower-margin interactive business. Performance improvement was partially offset by higher depreciation and royalties related to the infusion of new product in our installed base.

International product sales revenues increased $7.0 million, as lower units were offset by favorable ASP (up 5%) attributed to increased focus on creating customer value with locally attuned content and a more favorable product mix largely due to lower-priced Mexico lease-conversion units in the prior year. Gross margin decline was primarily due to higher parts and machine rework costs, as well as a higher contribution in the prior year from Mexico lease-conversion games that carried atypically high margins.

International operating income decrease was primarily the result of increased operating costs, largely due to additional investment in emerging interactive markets and technology. Operating expenses related to interactive initiatives increased $19.1 million, primarily from the addition of Entraction. Other operating expenses increased 6% primarily due to a distributor settlement charge of $3.1 million, as well as higher employee compensation and licensing costs.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES OF LIQUIDITY

Selected Financial Information and Statistics

	June 30, 2012	September 30, 2011	Increase (Decrease)
Cash and equivalents	$ 241.3	$ 460.0	$(218.7)
Accounts receivable, net	270.4	320.1	(49.7)
Inventories	104.0	73.0	31.0
Working Capital	605.2	875.2	(270.0)
Trailing-twelve month statistics, excluding discontinued operations:			
Days sales outstanding (excluding contracts and notes)	48	60	(12)

Inventory turns	4.1	5.4	(1.3)

At June 30, 2012, our principal sources of liquidity were cash and equivalents and amounts available under Credit Facilities and Indebtedness discussed below. Other potential sources of capital include, but are not limited to, the issuance of debt securities, bank credit facilities and the issuance of equity securities. Foreign subsidiary operations held 50% of our cash and equivalents at June 30, 2012.

Based on past performance and current expectations, we believe the combination of these resources will satisfy our needs for working capital, jackpot liabilities, capital expenditures, debt service, and other liquidity requirements associated with our existing operations into the foreseeable future.

Restricted cash and investments, as well as jackpot annuity investments, are used for funding jackpot winner payments and online player deposits. Restricted cash held by our VIE WAP trusts are used only for funding related jackpot winner payments. See Note 2.

Cash and equivalents decreased $218.7 million during the nine months ended June 30, 2012, primarily due to the use of cash for share repurchases of $475.1 million, acquisitions of $233.9 million, primarily DoubleDown, capital expenditures of $170.8 million, and dividends paid of $53.5 million. These decreases were partially offset by cash generated from operations of $327.0 million, debt proceeds of $280.0 million, net proceeds from investments and loans of $94.5 million and net employee stock plan proceeds of $15.1 million.

Inventory turns decreased with higher inventory related to customer deliveries anticipated for our fourth quarter. Days sales outstanding improved primarily due to lower receivables from increased collections, along with increased revenues.

Cash Flows Summary

Nine months ended June 30, 2012 and 2011 compared

Nine Months Ended June 30,	2012	2011	Favorable (Unfavorable)
Operations	$ 327.0	$ 448.7	$ (121.7)
Investing	(310.2)	(140.2)	(170.0)
Financing	(236.0)	(149.8)	(86.2)
Effects of exchange rates	0.5	(0.8)	1.3
Net Change	$ (218.7)	$ 157.9	$ (376.6)

Operating Cash Flows

Operating cash flows decreased primarily due to lower earnings and changes in working capital related to business volume and certain timing impacts. Significant variances in cash used by working capital changes included:

- $77.3 million more cash used for estimated income tax payments, as 2011 payments were reduced by overpayments from our federal tax return filed during 2010

- $42.5 million less cash used for jackpot liabilities, which related to the timing of jackpots won and winner payments, volume of play, and interest rate movements

Investing Cash Flows

We used more cash for investing primarily due to increased investment in business acquisitions of $233.9 million (see Note 17) and increased capital expenditures.

Nine Months Ended June 30,	2012	2011	Increase (Decrease)
Property, plant and equipment	$ 35.3	$ 10.8	$ 24.5

Gaming operations equipment		133.2		143.2		(10.0)
Intellectual property		2.3		1.1		1.2
Total capital expenditures	$	170.8	$	155.1	$	15.7

Financing Cash Flows

Increased cash used for financing was primarily related to share repurchases, partially offset by net debt proceeds. As part of our efforts to increase shareholder value, we executed a $400.0 million ASR transaction in June 2012, described in more detail in Note 14.

CREDIT FACILITIES and INDEBTEDNESS (See Note 10)

At June 30, 2012, $280.0 million was outstanding on our domestic credit facility, $446.5 million was available, and $23.5 million was reserved for letters of credit and performance bonds. The amounts drawn were used to fund a portion of our 2012 third quarter share repurchases (see Note 14). Our foreign credit facility in Australia was terminated in April 2012. We were in compliance with all debt covenants at June 30, 2012, with an interest coverage ratio of 11.6:1 and a net funded debt leverage ratio of 2.7:1.

The domestic credit facility interest rates and facility fees are based on our public debt ratings or our Net Funded Debt to EBITDA ratio (debt minus unrestricted cash and investments in excess of $150.0 million), whichever is more favorable to IGT. At June 30, 2012, our interest rate was LIBOR plus 122.5 bps on borrowings with a facility fee of 27.5 bps.

The domestic credit facility carries no limitations on share repurchases or dividend payments, presuming no default and includes the following financial and restrictive covenants (all terms as defined by the facility):

- a minimum ratio of 3.0 adjusted EBITDA to interest expense (interest coverage ratio)
- a maximum ratio of 3.5 for net funded debt to adjusted EBITDA (net funded debt leverage ratio)
- certain restrictions on our ability to:
  - § pledge the securities of our subsidiaries
  - § permit our subsidiaries to incur or guaranty additional debt, or enter into swap agreements
  - § incur liens
  - § merge with or acquire other companies, liquidate or dissolve
  - § sell, transfer, lease or dispose of all or substantially all assets
  - § change the nature of our business

The domestic credit facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including failure to make timely principal and interest payments or satisfy the covenants. An event of default, if not cured, could cause the entire outstanding borrowings under the credit facility to become immediately due and payable; additionally, lenders may cease making loans and/or terminate commitments, and cross default provisions may be triggered in other debt issuances.

FINANCIAL CONDITION

	June 30, 2012	September 30, 2011	Increase (Decrease)
Assets	$ 4,266.9	$ 4,154.4	$ 112.5
Liabilities	3,155.1	2,709.6	445.5
Total Equity	1,111.8	1,444.8	(333.0)

Changes During The Nine Months Ended June 30, 2012

Total assets increased primarily due to increases related to business acquisitions (see Note 17) of $232.5 million in goodwill and $65.3 million in intangible assets, net of amortization, as well as increases in customer financing of $59.5 million and inventories of $31.0 million, partially offset by a decrease in cash of $218.7 million.

Liabilities increased primarily due to additions of $280.0 million in long-term debt for borrowings on our line of credit, $154.4 million in acquisition related liabilities, partially offset by decrease in jackpot liabilities of $23.5 million. Total equity decreased primarily due to share repurchases partially offset by earnings.

Arrangements with Off-Balance Sheet Risk

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING STANDARDS

At June 30, 2012, there were no recently issued accounting standards that are expected to have a material impact on our financial statements. See Note 1.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

There have been no significant changes in our critical accounting estimates since those presented in Item 7 of our Annual Report on Form 10-K for the year ended September 30, 2011.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's market risk profile has not changed materially during the first nine months of 2012 since those presented in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

DoubleDown was excluded from our assessment of internal control over financial reporting at June 30, 2012, because it was acquired in January 2012. DoubleDown represents approximately 8% of consolidated assets, 6% and 3%, respectively, of consolidated revenues as of and for the three months and nine months, respectively, ended June 30, 2012.

Changes in Internal Control Over Financial Reporting

As a part of our normal operations, we update our internal controls as necessary to accommodate any modifications to our business processes or accounting procedures. During the 2012 third quarter, we completed the conversion of international subsidiary accounting systems for Interactive and Latin America locations to integrate directly with our corporate enterprise resource planning system. We expect to continue this conversion process at other international locations over the next two years. No other changes occurred during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Set forth below and elsewhere in this Quarterly Report on Form 10-Q, and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. These risks include any material changes to and supersede the risks previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended September 30, 2011 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

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

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

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

Furthermore, the extended economic downturn has impacted and could continue to impact the ability of our customers to make timely payments to us which could adversely affect our results of operations. We have, and may continue, to incur additional provisions for bad debt related to credit concerns on certain receivables, including in connection with contract financing we provide to customers, which has increased in amount in fiscal 2012 as a result of competitive marketplace and a challenging economic recovery.

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

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

- licenses and/or permits
- findings of suitability
- documentation of qualifications, including evidence of financial stability
- other required approvals for companies who manufacture or distribute gaming equipment and services, including but not limited to approvals for new products
- individual suitability of officers, directors, major shareholders and key employees

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

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

Further, changes in existing gaming regulations or new interpretations of existing gaming laws, both with respect to land-based and online gaming activities, may hinder or prevent us from continuing to operate in those jurisdictions where we currently do business, which would harm our operating results. In particular, the enactment of unfavorable legislation or government efforts affecting or directed at manufacturers or gaming operators, such as referendums to increase gaming taxes or requirements to use local distributors, would likely have a negative impact on our operations. Additionally, evolving laws and regulations regarding data privacy could adversely impact opportunities for growth in our online business, and could result in additional compliance-related costs.

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

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

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

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

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

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

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

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

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

Our online operations are also subject to intense competition. In particular, the online virtual casino operated by DoubleDown is relatively new, has lower barriers to entry, and new competitors are likely to emerge, some of which may be operated by social gaming companies with a larger base of existing users, or by casino operators with more experience in operating a casino. If the products offered through our online businesses do not maintain their popularity, or fail to grow in a manner that meets our expectations, our results of operations and financial condition could be harmed.

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

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

We intend to continue investing resources toward our research and development efforts. There is no assurance that our investments in research and development will lead to successful new technologies or timely new products. We invest heavily in product development in various disciplines: platform hardware, platform software, online services, content (game) design and casino software systems. Because our newer products are generally more technologically sophisticated than those we have produced in the past, we must continually refine our design, development and delivery capabilities across all channels to meet the needs of our product innovation. If we cannot efficiently adapt our processes and infrastructure to meet the needs of our product innovations, our business could be negatively impacted.

Our customers will accept a new game product only if it is likely to increase operator profits more than competitors' products. The amount of operator profits primarily depends on consumer play levels, which are influenced by player demand for our product. There is no certainty that our new products will attain this market acceptance or that our competitors will not more effectively anticipate or respond to changing customer preferences. In addition, any delays by us in introducing new products could negatively impact our operating results by providing an opportunity for our competitors to introduce new products and gain market share ahead of us.

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

We operate in many countries outside of the US and in tribal jurisdictions with sovereign immunity which subjects us to certain inherent risks. A significant portion of our revenues is derived from our International business segment. Developments such as noted below could adversely affect our financial condition and results of operations:

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

We may be unable to protect our IP.

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

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

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

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

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

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

We have invested and may continue to invest in strategic business combinations and acquisitions of important technologies and IP that we believe will expand our geographic reach, product lines, and/or customer base. We may encounter difficulties in the assimilation of acquired operations, technologies and/or products, or an acquisition may prove to be less valuable than the price we paid, or we may otherwise not realize the anticipated benefits of an acquisition. We also may encounter difficulties applying our internal controls to an acquired business. Any of these events or circumstances may have an adverse effect on our business by requiring us to, among other things, record substantial impairment charges on goodwill and other intangible assets, resulting in a negative impact on our operating results.

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

As we enter into new lines of business and expand our online offerings, there may be unintended adverse effects on our land-based business. For example, our DoubleDown Casino® online virtual casino may be offered on Facebook alongside existing or planned online virtual casino offerings by one or more of our casino customers. One or more of such casino customers could view our online virtual casino offering as competing with its offering. If, as a result of this view, one or more of such customers modifies, reduces or terminates its business relationship with us with respect to our land-based products and services, it could have a negative impact on our business and our operating results.

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

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

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

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

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

Our online virtual casino offering is conducted almost entirely through Facebook, and our business and our growth prospects would suffer if we fail to maintain a good relationship with Facebook, or if Facebook were to alter the terms of our relationship.

DoubleDown Casino®, which is our online virtual casino offering, operates almost entirely through Facebook. Consequently, our operating platform, growth prospects and future revenues from this online offering are dependent on our relationship with Facebook. While DoubleDown has historically maintained a good relationship with Facebook, our online virtual casino offering would suffer if we are unable to continue this relationship in the future.

In addition, our relationship with Facebook is not governed by a contract, but rather by Facebook's standard terms and conditions for application developers. Facebook modifies these terms and conditions as well as its privacy policies from time to time, and any future changes, including any changes required as a result of government regulation, could have a material adverse impact on our business. For example, if Facebook were to increase the fees that it charges application developers, our gross profit and operating income would suffer. Additionally, if users were to limit our ability to use their personal information, or if Facebook were to develop competitive offerings, either on its own or in cooperation with another competitor, our growth prospects would be negatively impacted.

Our online offerings are part of a new and evolving industry, which presents significant uncertainty and business risks.

Online gaming, including social gaming, is a relatively new industry that continues to evolve. The success of this industry and our online business will be affected by future developments in social networks, mobile platforms, regulatory developments, data privacy laws and regulations, and other factors that we are unable to predict, and are beyond our control. This environment can make it difficult to plan strategically and can provide opportunities for competitors to grow revenues at our expense. Consequently, our future operating results relating to our online offerings may be difficult to predict and we cannot provide assurance that our online offerings will grow at the rates we expect, or be successful in the long term.

Systems, network or telecommunications failures or cyber-attacks may disrupt our business and have an adverse effect on our results of operations.

Any disruption in our network or telecommunications services could affect our ability to operate our games or financial systems, which would result in reduced revenues and customer down time. Our network and databases of business or customer information are susceptible to outages due to fire, floods, power loss, break-ins, cyber-attacks, network penetration, data privacy or security breaches, denial of service attacks and similar events. Despite our implementation of network security measures and data protection safeguards, our servers and computer resources are vulnerable to viruses, malicious software, hacking, break-ins or theft, third-party security breaches, employee error or malfeasance, and other potential compromises. Disruptions from unauthorized access to or tampering with our computer systems in any such event could have a material adverse effect on our business, reputation, operating results and financial condition.

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

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

Our outstanding Notes subject us to additional risks.

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

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

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

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

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

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

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

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

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

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

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

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

Share Repurchases

The purpose of our common stock repurchase plan is to increase shareholder value and to reduce outstanding share count dilution. As announced on June 14, 2012, our Board of Directors authorized share repurchases of up to $1.0 billion beginning on June 13, 2012. We may use open market or privately negotiated transactions, as well as Rule 10b5-1 trading plans, depending on market conditions and other factors. The authorization, as amended, does not specify an expiration date. See Note 14 for a description of our $400.0 million ASR transaction executed in June 2012.

2012 Third Quarter	Total (a) Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as part of a Publicly Announced Plan	Approximate Dollar Value of Shares Still Available for Purchase Under the Plan
April 1 - April 28, 2012	0.1	$ 15.94	0.1	$ 398.6
April 29 - May 26, 2012	0.9	$ 14.80	0.9	384.8
May 27 - June 30, 2012	21.8	$ 14.33	21.8	$ 600.0
Total	22.8	$ 14.36	22.8	

(a) Includes 3,500 of restricted shares or units tendered by employees at fair value at vesting for tax withholding obligations

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

10.1 Capped Accelerated Stock Buyback Agreement, dated as of June 13, 2012, by and between the Company and Goldman, Sachs & Co.*

10.2 Supplemental Confirmation, dated as of June 13, 2012, by and between the Company and Goldman, Sachs & Co.*

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

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

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

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

101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

* The attached Capped Accelerated Stock Buyback Agreement and Supplemental Confirmation are partially redacted as the Company is seeking confidential treatment for certain provisions contained therein.

Signatures

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

Date: August 8, 2012

INTERNATIONAL GAME TECHNOLOGY

By: /s/ John Vandemore
John Vandemore
Chief Financial Officer and Treasurer
(Principal Financial Officer)

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