

INTERNATIONAL GAME TECHNOLOGY
Form 10-K
November 28, 2012

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

FORM 10-K

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

For the Fiscal Year Ended September 29, 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
(State or other jurisdiction of incorporation or
organization)

88-0173041
(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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$.00015625	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

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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 (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

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

Large accelerated filer Accelerated filer
Non-accelerated filer (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 Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant on March 31, 2012: \$5.0 billion.

The number of shares outstanding of each of the registrant's classes of common stock, as of November 23, 2012:
266.1 million shares of common stock at \$.00015625 par value.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of our Proxy Statement relating to the 2013 annual shareholders meeting are incorporated by reference in Part III. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended September 29, 2012

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

Fiscal dates—actual:	Fiscal dates—as presented:
September 29, 2012	September 30, 2012
October 1, 2011	September 30, 2011
October 2, 2010	September 30, 2010
October 3, 2009	September 30, 2009
September 27, 2008	September 30, 2008

Abbreviation/term	Definition
Anchor	Anchor Gaming
APAC	Asia, Australia, New Zealand, and the Pacific
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
B2B	Business-to-business
B2C	Business-to-customer/consumer
bps	basis points
CCSC	Colorado Central Station Casino
CDS	central determination system
CEO	chief executive officer
CFO	chief financial officer
CLS	China LotSynergy Holdings, Ltd.
DAU	Daily Active Users
DCF	discounted cash flow
DoubleDown	Double Down Interactive LLC
EBITDA	earnings before interest, taxes, depreciation, and amortization
EMEA	Europe (including the UK), the Middle East, and Africa
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
IGT rgs™	IGT Remote Game Server™
IP	intellectual property
IRS	Internal Revenue Service
LAC	Latin America (Mexico, South and Central America) and the Caribbean
LIBOR	London inter-bank offered rate
MAU	Monthly Active Users
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

Abbreviation/term	Definition
SEC	Securities and Exchange Commission
SIP	2002 Stock Incentive Plan
SG&A	sales, general and administrative
UK	United Kingdom
US	United States
VAT	value added tax
VIE	variable interest entity
VWAP	average daily volume weighted average price
WAP	wide area progressive
Yield	average revenue per unit per day
*	not meaningful (in tables)

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
 - εχονομικ χονδριτιονσ ανδ οτηερ φαχτορσ αφφεχτινγ τηε γαμινγ ινδυστρψ
 - gaming growth, expansion, and new market opportunities
 - expected trends in the demand for our products
- δεωελοπμεντσ ωιτη ρεσπεχτ το εχονομικ, πολιτιχαλ, ρεγυλατορψ ανδ οτηερ χονδριτιονσ αφφεχτινγ ουρ ιντερνατιοναλ οπερατιονσ
- mergers, acquisitions and divestitures, including the expected benefits of completed acquisitions and expectations for, possible acquisitions of, or investments in, businesses, products, and technologies
 - expected restructuring costs incurred in connection with our cost saving efforts
 - 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, legal 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 1, 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.

PART I

Item 1. Business

International Game Technology is a global gaming company specializing in the design, development, manufacture, and marketing of casino games, gaming equipment and systems technology for land-based and online social gaming and wagering markets. We are a leading supplier of gaming entertainment products worldwide and provide a diverse offering of quality products and services at competitive prices, designed to enhance the player's experience.

International Game Technology was incorporated in Nevada in December 1980 to facilitate our initial public offering in 1981. Principally serving the US gaming markets when founded, we expanded into jurisdictions outside the US beginning in 1986.

Our fiscal year is reported on a 52/53-week period that ends on the Saturday nearest to September 30. For simplicity, this report presents all fiscal years using the calendar month end as outlined in the table below.

Fiscal Year	Actual	Ended	Presented as	Weeks
2012	September 29, 2012		September 30, 2012	52
2011	October 1, 2011		September 30, 2011	52
2010	October 2, 2010		September 30, 2010	52
2009	October 3, 2009		September 30, 2009	53
2008	September 27, 2008		September 30, 2008	52

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 year ended September 30, 2012
- Note refers to the Notes of our Consolidated Financial Statements in Item 8 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 the current fiscal year as compared with the prior year

BUSINESS SEGMENTS

We derive our revenues from the distribution of casino games, gaming equipment and systems technology for land-based and online social gaming and wagering markets. Operating results reviewed by our CEO encompass all revenue sources within each geographical customer region. We currently view our business in two operating segments, North America and International, each incorporating all revenue categories. Unless otherwise noted, prior year amounts throughout this report have been adjusted for operations discontinued during 2011 and 2010, as further described in Note 21.

- North America consists of our operations in the US and Canada, comprising 76% of consolidated revenues from continuing operations in 2012, 76% in 2011, and 75% in 2010.
-

International consists of our operations in all other jurisdictions worldwide, comprising 24% of consolidated revenues from continuing operations in 2012, 24% in 2011, and 25% in 2010.

We measure segment profit on the basis of operating income. Certain income and expenses are managed at the corporate level and not allocated to an operating segment. Other segment and financial information contained in our MDA BUSINESS SEGMENT RESULTS and Note 18 is incorporated here by this reference.

REVENUE CATEGORIES

We recognized revenues in three major categories — Gaming Operations, Product Sales and Interactive. See Footnote 1 for additional information about accounting for our revenues.

Gaming Operations

Comprising 48% of consolidated revenues in 2012, 53% in 2011, and 54% in 2010, gaming operations generates recurring revenues by providing customers with proprietary land-based casino gaming equipment, systems, content licensing, and services under a variety of recurring revenue arrangements. Our gaming operations pricing arrangements are largely variable where casinos pay service fees to IGT based on a percentage of amounts wagered (also referred to as coin-in) or net win. Variable fee units comprised 82% of our gaming operations installed base at September 30, 2012. Fixed fee units comprised 18% of our installed base at September 30, 2012 and pricing arrangements are typically based on a daily or monthly fee.

Casinos with IGT WAP machines paid a percentage of the coin-in for IGT services related to the design, assembly, installation, operation, maintenance, and marketing of the WAP systems, as well as funding and administration of the progressive jackpot. The cost of funding progressive jackpots is subject to interest rate volatility as further described in Note 1, MDA CRITICAL ACCOUNTING ESTIMATES and related risks included in Part I, Item 1A.

Gaming operations revenues are affected by variations in the number and type of machines in service, levels and frequency of player wagers, and pricing arrangement terms. Levels of play are dependent on game popularity, casino seasonality trends, economic conditions, and other player preferences. Seasonal trends generally show higher play levels in the spring and summer months and lower in the fall and winter months. We monitor the productive life cycles of our gaming operations machines and systematically replace units experiencing declining play levels with newer games.

The IGT owned gaming operations installed base was comprised of our MegaJackpots® premium branded gaming machines, including WAP and stand-alone units, as well as other lease or rental units, including CDS and racino machines. IGT owned units were recorded on our balance sheet as part of property, plant and equipment. Casino owned units represent machines sold to our customers that also provide a recurring royalty fee. Prior year casino owned units increased by 3,600 in 2012, 2,900 in 2011 and 1,500 in 2010 due to a change in management's installed base criteria. Gaming operations revenues are generated from the units reflected in the table below, as well as from other service fees for systems access, game content, and other gaming equipment lease or rental.

Gaming Operations Units ('000)	2012	2011	2010
IGT owned units - MegaJackpots® (Premium brand)	27.1	27.9	27.2
IGT owned units - Lease (CDS, racino, other)	30.0	26.0	25.7
IGT installed base	57.1	53.9	52.9
Casino owned	21.6	20.4	19.4
Total	78.7	74.3	72.3

Product Sales

Comprising 45% of consolidated revenues in 2012, 45% in 2011, and 44% in 2010, product sales include land-based gaming machines and non-machine gaming related equipment, systems, services, licensing and royalty fees, and component parts (including kit conversions).

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Product Sales Composition	2012		2011		2010	
Slot machines	67	%	63	%	62	%
Non-machine	33	%	37	%	38	%
Gaming systems	20	%	22	%	22	%
Parts & conversions	10	%	12	%	13	%
Other fees & services	3	%	3	%	3	%

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Interactive

Comprising 7% of consolidated revenues in 2012, 2% in 2011, and 2% in 2010, interactive revenues are generated from online social gaming and wagering products and services, presented in the following two groups.

Social Gaming

Our North America based DoubleDown social casino-style gaming operation was acquired in January 2012 and generates revenues from the sale of virtual casino chips to players for use within the DoubleDown Casino® for additional play or game enhancements. Costs of revenues are comprised mainly of payment processing fees paid to Facebook or land-based casino hosts on a revenue participation basis. Social gaming metrics include:

DAU measures the number of active users that play games at the DoubleDown Casino® each day. Average DAU is the average of the DAUs for each day during the period.

MAU measures the number of active users that played games at the DoubleDown Casino® at least once in the last 30 days. Average MAU is the average of the MAUs each day during the period.

DAU/MAU is a ratio used to monitor user engagement.

Bookings represent the total amount of virtual casino chips sold during the period, as opposed to revenues, which include deferral adjustments based on the estimated period of service or chip consumption.

Unlike many other online social casino-style games where each game is a unique application, DoubleDown operates as a single casino application with multiple games where all games are available to the player within a single application. As a result, DoubleDown's reported number of active users is the equivalent of the number of unique users reported by many other online social casino-style game operators. Our DoubleDown strategy focuses on increasing DAU as an indicator of user engagement and average bookings per DAU. For 2012 since acquisition in January 2012, DoubleDown had average DAU of 1.4 million and average bookings per DAU of \$0.26.

IGTi

IGTi collectively refers to all of our other online and mobile gaming solutions. IGTi encompasses primarily real money wagering casino and mobile gaming systems infrastructure and applications, content licensing, and back office operational support services, including WAP jackpot funding and administration. IGTi solutions are generally provided under revenue sharing arrangements based on a percentage of net win.

IGTi solutions are provided in one of two ways. In B2B arrangements, IGTi provides content and services to a partnering business, which then connects to the player through the partner's own site. In B2C arrangements, IGTi runs the online website on behalf of the customer, connecting directly with the player. IGTi costs of revenues includes transaction costs incurred to run the sites, including player verification checks, banking transaction fees, data center costs to host servers, internet bandwidth fees, royalties, and server support/maintenance fees.

STRATEGIC BUSINESS ACQUISITIONS AND AFFILIATES

We aim to complement our internal resources through strategic alliances, investments, and business acquisitions that:

- diversify our geographic reach
- expand our product lines and customer base
- leverage our technological and manufacturing infrastructure to increase our rates of return

In January 2012, we acquired Seattle based Double Down Interactive LLC., developer and operator of the social gaming 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 establishing IGT's position in social casino-style gaming and strengthening our core business with added distribution channels for IGT game content. DoubleDown is presented as a component of our North America segment.

Acquisitions and affiliate investments are also discussed in Notes 2 and 20. Discontinued operations, and material asset losses or impairment recognized during the last three years are discussed in our MDA—OVERVIEW, MDA—CONSOLIDATED RESULTS, and Notes 19 and 21. Risks related to business combinations and investments are described in Part I, Item 1A.

PRODUCTS

We provide a broad range of casino games, gaming equipment and systems technology for land-based and online social gaming and wagering markets under for-sale or revenue sharing arrangements.

Games

We combine elements of math, play mechanics, sound, art, and technological advancements with our library of entertainment licenses and patented IP to provide gaming products designed to provide a high degree of player appeal. We continuously expand our game library with new content, popular brands, and appealing bonuses to address player preferences and other market trends.

We offer a wide array of casino-style games for land-based, online social gaming, online real-money wagering and mobile gaming markets with multi-line, multi-coin and multi-currency configurations.

Land-Based	Interactive
Premier (MegaJackpots®)	Social - DoubleDownCasino®
Multi-Level Progressive	Slots
Wide-Area Progressive	Video Poker
Stand-Alone	Table Games
Core	Online
Video Reel	MegaJackpots®
Spinning Reel	Slots
Video Poker	Table Games
Multi-Game (Game King®)	Fixed Odds
Game Families	Video Poker
Central Determination System	Bingo & Keno
Bingo (Class II)	
VLT	Mobile
Multi-Player	Slots
Electronic Table	Table Games
Virtual Racing	Video Poker

Cabinet Configurations

Land-based customers can combine our extensive library of games with several gaming machine cabinets designed to maximize functionality, flexibility, and player comfort. Our AVP® machines support server-based gaming networks with G2S open industry standards. Slot machine configurations vary by jurisdiction and may include:

- Stand-alone casino-style slot machines that determine the game play outcome at the machine, known as Class III in tribal jurisdictions
 - WAP jackpot systems with machines linked across several casinos
- CDS machines connected to a central server that determines the game outcome, encompassing VLT's (video lottery terminals) used primarily in government-sponsored applications and electronic or video bingo machines, known as Class II in tribal jurisdictions

Systems

IGT systems products include infrastructure and applications for casino management, customer relationship management, player management, and server-based gaming. Our casino and customer relationship management

solutions include integrated modules for:

- machine accounting
- patron management
- cage accounting
- table accounting
- ticket-in/ticket-out
- bonusing (jackpots and promotions)
- table game automation
- payment processing
- reporting
- regulatory compliance

Our player management solutions feature customized player messaging, tournament management, and integrated marketing and business intelligence modules that provide analytical, predictive, and management tools for maximizing casino operational effectiveness. Our server-based solutions enable electronic game delivery and configuration for slot machines, as well as providing casino operators with opportunities to increase profits by enhancing the players' experience, connecting with players interactively, and creating operational efficiencies.

Interactive

IGT's Double Down online social gaming operation provides a unique opportunity for casino entertainment to reach a broader audience, while complementing IGT's other existing offerings and the core casino audience. DoubleDown Casino® is available online through Facebook and www.DoubleDownCasino.com on a variety of personal computer and mobile devices. Additionally, our land-based casino customers can integrate the DoubleDown Casino® link into their own website providing players with access to a large portfolio of popular social casino-style games. The DoubleDown Casino® link provides casino operators with an opportunity to engage their customers when they are not physically present in the land-based casino.

IGT also provides wager-based online casino and mobile gaming systems infrastructure and applications, content licensing, and back office operational support services. The IGT Remote Game Server® (IGT rgs™) seamlessly integrates onto an operator's interactive platform, allowing access to our portfolio of game content that allows for real money wagering in legalized jurisdictions. These systems are primarily focused on the management of digital patron wallets, responsible gaming functionality, fraud detection and prevention, patron credentials, customer relationship management, player accounting, and player analytics. With these solutions, we deploy a full service platform capable of supporting the main games associated with online wagering (casino games, sports betting, multi-player poker and bingo).

RESEARCH & DEVELOPMENT

We support our product development efforts through a considerable emphasis and investment in the R&D of emerging technology trends, which we believe enables us to maintain a leadership position in the industry. Our product innovation reflects a combination of customer research, design experience and engineering excellence utilizing our game design resources, IP portfolio, and next-generation game development tools. The focus of our product development is to enhance the player experience through interactive networked gaming, information technology, innovative game design, and customer relationship services, thereby maximizing the potential for casino operator profitability.

We dedicate approximately 1,700 employees worldwide to R&D efforts covering multiple engineering disciplines, including hardware, electrical, systems and software. We specialize in progressive creative game development including design, math, graphics and audio. Our primary development facilities are located in Nevada (Reno and Las Vegas), California (San Francisco), Washington (Seattle), China (Beijing), and Australia (Sydney). Additional global design centers provide local community presence, customized products, and regional production where beneficial or required.

Our games are created primarily by employee designers, engineers, and artists, as well as third-party content creators. We also use third-party technologies to improve the yield of our development investment and concentrate increased resources on product differentiation engineering. A significant amount of our R&D efforts during 2012 continued to focus on expanding interactive online opportunities. Our investment in R&D totaled \$217.0 million in 2012, \$194.7 million in 2011, and \$189.4 million in 2010.

Intellectual Property

Our IP portfolio of patents, trademarks, copyrights, and other licensed rights are significant to our business. At September 30, 2012, we held approximately 5,800 patents or patent applications and approximately 3,800 trademarks filed and registered worldwide. The weighted average remaining useful life of our capitalized patent costs at September 30, 2012 was approximately 3.5 years. Our brand licensing arrangements have various expiration dates through 2020 and commonly contain options to extend.

We seek to protect our investment in R&D and the new and original features of our products by perfecting and maintaining our IP rights. We obtain patent protection covering many of our products and have a significant number of US and foreign patent applications pending. Our portfolio is widely diversified with patents related to a variety of gaming products, including game designs, bonus and secondary imbedded game features, device components, and online or mobile functionality.

We market most of our products under trademarks and copyrights that provide product recognition and promote widespread acceptance. We seek protection for our copyrights and trademarks in the US and various foreign countries, where applicable. We use IP assets offensively and defensively to protect our innovation and license it to others under terms designed to promote standardization in the gaming industry. IP litigation is described in Note 13 and related risk factors are discussed in Part I, Item 1A.

SALES AND MARKETS

We market our products and services worldwide. We have a substantial presence in the US and growing international operations. We promote our products through a worldwide network of sales associates, as well as third-party distributors and agents in certain markets under arrangements that generally specify no minimum purchase and require specified performance standards be maintained. We offer equipment contract financing for qualified customers and development financing loans to select customers for new or expanding gaming facilities.

As of September 30, 2012, we maintained 60 offices across six continents to respond to customer needs and our Global Support Center is staffed with experts in technical issue resolution. We provide access to product information and 24-hour customer service through our website and offer a variety of customer training designed to ensure success in using our products to their full potential.

North America

The gaming industry installed base in the US and Canada has been relatively flat over the last few years, at just over 900,000 legal gaming devices by our estimates. Growth of legalized gaming is largely driven by new jurisdictions considering gaming tax revenues as a means to address budget shortfalls. Sales or placements of gaming machines are also affected by new openings or expansion of existing gaming properties and the machine replacement cycle, as well as economic conditions. Additionally, we expanded into online social gaming with the acquisition of DoubleDown in January 2012.

International

Markets outside of North America are expected to grow faster than those in North America, and we are localizing our sales presence in these markets, as we increase scalability and prepare for new opportunities. Our international strategy capitalizes on our North America experience, while customizing products for foreign languages, other unique local preferences and regulatory requirements.

Our international gaming markets included the following customer regions at September 30, 2012:

- Europe (including the UK), the Middle East, and Africa (EMEA)
- Latin America (Mexico, South and Central America) and the Caribbean (LAC)
- Asia, Australia, New Zealand, and the Pacific (APAC)

As the legalization and regulation of online gaming continues to unfold, our strategic intent is to enter and do business in those regulated markets that offer attractive return characteristics and build on our existing capabilities. In conjunction with an evaluation of resources, products, and markets from a commercial and compliance perspective,

during our 2012 fourth quarter we determined it was prudent to consolidate our IGTi product development and customer service resources in Europe primarily acquired with Entraction, due in part to diminished returns largely related to regulatory challenges. As a result, we began exiting certain online turnkey and poker operations and closing or reducing certain facilities in Europe (Stockholm and Tallinn). Resulting impairment and restructuring charges are discussed in our MDA-CONSOLIDATED RESULTS, MDA--BUSINESS SEGMENT RESULTS, and Note 19.

OPERATIONAL OVERVIEW

Manufacturing and Suppliers

In addition to our main production facility in Nevada, we manufacture our products using third-party manufacturers in China. We also provide reconditioning and re-manufacturing processes in our Las Vegas facility for our gaming operations installed base. Our manufacturing operations primarily involve the configuration and assembly of electronic components, cables, harnesses, video monitors, and prefabricated parts purchased from outside sources. We also operate facilities for silkscreen manufacturing and digital design.

We use a variety of raw materials to manufacture our gaming devices including metals, wood, plastics, glass, electronic components, and LCD screens. We have a broad base of material suppliers and utilize multi-sourcing practices to ensure component availability. We believe the availability of materials used to manufacture our products is adequate and we are not substantially dependent on any single supplier.

We currently devote approximately 626,000 square feet in our Reno facilities and approximately 228,000 square feet in our Las Vegas facility to product development, manufacturing, warehousing, shipping, and receiving. Maintaining our commitment to quality, we maintained our ISO 9001:2008 Quality Management System certification at all of our manufacturing facilities during 2012. ISO standards represent an international consensus with respect to the design, manufacture, and use of practices intended to ensure ongoing customer satisfaction with consistent delivery of products and services.

We generally carry a sufficient amount of inventory related to the breadth of our product lines. We reasonably expect to fill our manufacturing product order backlog for both gaming operations and product sales within the next fiscal year. Backlog for gaming operations machine units totaled 7,800 at October 31, 2012 and 7,500 at October 31, 2011. Product sales backlog totaled approximately \$197.3 million at October 31, 2012 and \$122.1 million at October 31, 2011.

Employees

As of September 30, 2012, we employed 4,800 individuals worldwide, 3,900 in our North America segment and 900 in our International segment. We continue to review our costs and organizational structure to maximize efficiency and align expenses with the current and long-term business outlook.

COMPETITION AND PRODUCT DEMAND

IGT operates within an increasingly competitive market. The markets for our gaming products and services are constantly evolving and technological advances increasingly employ personal computers, mobile communication, and other digital media devices. Our competitors range from small, localized companies to large, multi-national corporations in every jurisdiction in which we conduct business. Our most significant competitors include Aristocrat Leisure Limited, Bally Technologies, Inc., and WMS Industries, Inc.

We believe replacement sales are driven by customer strategies to upgrade casino floors with newer games and technologies that combine higher yields with cost savings, convenience, and other benefits. Emerging technologies that improve operators' profitability, such as delivery platforms with increased capabilities, game features that increase player appeal, or application modules which increase operator efficiencies, can accelerate the replacement cycle.

New or expanding casinos generate new product demand and stimulate replacement demand at neighboring properties compelled to upgrade their gaming floors to remain competitive. New jurisdictions establishing legalized gaming also

create product demand and continue to grow the overall installed base of gaming devices.

We endeavor to create gaming products with superior functionality and features, using innovative architecture and technologies, resulting in a high degree of customer acceptance and player preference. We also strive to maintain an edge in our quality of customer support and efficient product implementation. The breadth of our gaming products and diversity of our innovative game library contribute to our competitive advantage.

We believe IGT has competitive advantages resulting from broad alliances and lengthy business relationships with our customers, the financial strength to aggressively invest in R&D, and an extensive IP portfolio. Our historically high levels of customer service and support, extensive and well-established infrastructure of sales and manufacturing, worldwide name recognition, and geographic diversity are also competitive assets. We believe our reputation for consistently delivering and supporting quality products will encourage operators to select our products and enable us to maintain a substantial market position.

AVAILABLE INFORMATION

IGT's principal corporate executive offices are located at: 6355 South Buffalo Drive
Las Vegas, Nevada 89113
(702) 669-7777

All reporting information filed with or furnished to the SEC is available free of charge through the Investor Relations link on our website at www.IGT.com as soon as reasonably practicable after we electronically file or furnish such information to the SEC.

The public may read and copy any materials filed by the company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC available at www.sec.gov.

Additionally, the following IGT information is available through the Investor Relations link of our website and will be mailed in print form free of charge to any shareholder upon request:

- code of conduct
- corporate governance guidelines
- code of ethics for our principal executive officer and senior financial officers
- conflict of interest guidelines for members of our board of directors
- charters for our Audit, Capital Deployment, Compensation, and Nominating and Corporate Governance Committees

GOVERNMENT GAMING REGULATION

We conduct business worldwide and are subject to licensing and other regulatory requirements. The manufacture and distribution of casino games, gaming equipment, systems technology, and related services, as well as the operation of casinos, is subject to regulation by a variety of federal, state, international, tribal, and local agencies, with the majority of oversight provided by individual state gaming control boards.

While the regulatory requirements vary from jurisdiction to jurisdiction, most require:

- licenses and/or permits
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