

INTERNATIONAL GAME TECHNOLOGY
Form 10-K
December 01, 2010

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 October 2, 2010

OR

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

For the transition period from ____ to ____

Commission File Number 001-10684

International Game Technology

Nevada
(State or other jurisdiction of
Incorporation or Organization)

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

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

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

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 Securities
Exchange Act of 1934
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

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 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

The aggregate market value of voting stock held by non-affiliates of the registrant on April 2, 2010: \$5.5 billion.

The number of shares outstanding of each of the registrant's classes of common stock, as of November 29, 2010:
298.2 million shares of common stock at \$.00015625 par value.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of our Proxy Statement relating to the 2011 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 October 2, 2010.

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

Abbreviation/term	Definition
Anchor	Anchor Gaming
ARS	auction rate securities
ASU	Accounting Standards Update
AVP®	Advanced Video Platform®
AWP	amusement with prize
5.5% Bonds	5.5% fixed rate notes due 2020
7.5% Bonds	7.5% fixed rate notes due 2019
bps	basis points
CAD	Canadian dollars
CCSC	Colorado Central Station Casino
CDS	central determination system
CEO	chief executive officer
CFO	chief financial officer
CLS	China LotSynergy Holdings, Ltd.
CRM	customer relationship marketing
Cyberview	Cyberview Technology, Inc.
DCF	discounted cash flow
Debentures	2.6% convertible debentures
DigiDeal	DigiDeal Corporation
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, taxes, depreciation, and amortization
EPA	Environmental Protection Agency
EPS	earnings per share
ERISA	Employee Retirement Income Security Act
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
GSA	Gaming Standards Association
IGT, we, our, the Company	International Game Technology and its consolidated entities
IP	intellectual property
IRS	Internal Revenue Service
LIBOR	London inter-bank offering rate
LVGI	Las Vegas Gaming International
JV	joint venture
M-2-1	Million-2-1
MDA	management's discussion and analysis of financial condition and results of operations
MLD®	Multi-layer display®
M-P	multi-player
Notes	3.25% convertible notes due 2014
NCI	noncontrolling interests
OSHA	Occupational Safety & Health Administration
pp	percentage points
PGIC	Progressive Gaming International Corporation
R&D	research and development
sbX™	IGT's complete server-based player experience management solution
SEC	Securities and Exchange Commission
SIP	Stock Incentive Plan

UK	United Kingdom
US	United States
VIE	variable interest entity
VSOE	vendor specific objective evidence
WAP	wide area progressive
WDG	Walker Digital Gaming, LLC
WMS	WMS Industries Inc.
*	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 and marketing initiatives
 - ♣ our leadership position in the gaming industry
 - ♣ the advantages offered to customers by our anticipated products and product features
 - ♣ gaming growth, expansion, and new market opportunities
 - ♣ fluctuations in future gross margins and tax rates
 - ♣ increasing product sales or machine placements
 - ♣ legislative or regulatory developments and related market opportunities
- ♣ available capital resources to fund future operating requirements, capital expenditures, payment obligations, and share repurchases
 - ♣ expectations related to the timing and cost associated with restructuring efforts and deconsolidations
 - ♣ 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, manufacture, and marketing of electronic gaming equipment and systems. IGT maintains a wide array of entertainment-inspired gaming product lines and targets gaming markets in all legal jurisdictions worldwide.

International Game Technology was incorporated in Nevada in December 1980 to acquire the gaming licensee and operating entity, IGT, and to facilitate our initial public offering. Principally serving the US gaming markets when founded, we expanded into jurisdictions outside the US in 1986. Unless the context indicates otherwise, International Game Technology, IGT, we, our, or the Company refers to International Game Technology and its consolidated entities. Italicized text in this document with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors. Information about IGT trademarks and copyrights is available on our website at www.IGT.com.

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	Ended		Weeks
	Actual	Presented as	
2010	October 2, 2010	September 30, 2010	52
2009	October 3, 2009	September 30, 2009	53
2008	September 27, 2008	September 30, 2008	52
2007	September 29, 2007	September 30, 2007	52
2006	September 30, 2006	September 30, 2006	52

BUSINESS SEGMENTS

We derive our revenues from the distribution of electronic gaming equipment, systems, services and licensing. Operating results reviewed by our chief operating decision maker encompass all revenue sources within each geographical customer region. We currently view our business in two operating segments as stated below, each incorporating all types of revenues. Unless otherwise noted, prior year amounts throughout this report have been adjusted for Japan and DigiDeal operations discontinued during fiscal 2010, as further described in Note 7 of our Consolidated Financial Statements.

- ♣ North America consists of our operations in the US and Canada, comprising 72% of consolidated revenues from continuing operations in fiscal 2010, 78% in 2009, and 76% in 2008.
- ♣ International consists of our operations in all other jurisdictions worldwide, comprising 28% of consolidated revenues from continuing operations in fiscal 2010, 22% in 2009, and 24% in 2008.

We measure segment profit on the basis of operating income. Certain income and expenses related to company-wide initiatives are managed at the corporate level and not allocated to an operating segment. Other segment and financial information contained in BUSINESS SEGMENT RESULTS of our MDA and Note 21 of our Consolidated Financial Statements is incorporated here by this reference.

REVENUE STREAMS

We have two revenue streams within each business segment -- gaming operations and product sales.

Gaming Operations

Comprising 55% of consolidated revenues in fiscal 2010, 56% in 2009, and 53% in 2008, gaming operations generates recurring revenues by providing our customers with proprietary gaming equipment, systems and services. Our gaming operations pricing arrangements are largely variable where casinos pay service fees to IGT based on a percentage of amounts wagered or net win. Variable fee units comprised 82% of our gaming operations installed base at September 30, 2010. Fixed fee pricing arrangements are typically based on a daily or monthly fee. A portion of WAP fees paid to IGT is used for the funding and administration of progressive jackpots. The cost of funding progressive jackpots is subject to interest rate volatility as further described in Note 1 of our Consolidated Financial Statements and the MDA—CRITICAL ACCOUNTING ESTIMATES.

Gaming operations revenues are affected by variations in the number and type of machines in service, levels 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 installed base of gaming devices includes both variable fee and fixed fee machines, which are recorded on our balance sheet as part of our property, plant and equipment. Casino-owned units are machines sold that also provide a recurring royalty fee. Gaming operations revenues are generated from the units reflected in the table below, as well as service fees for internet gaming, systems access, game content, and other gaming equipment rentals and leasing.

September 30,

2010