

INTERNATIONAL GAME TECHNOLOGY
Form 10-Q
August 13, 2009

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2009

OR

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

For the transition period from ____ to ____

Commission File Number 001-10684

International Game Technology

Nevada
(State of Incorporation)

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

9295 Prototype Drive

Reno, Nevada 89521

(Address of principal executive offices)

(775) 448-7777

(Registrant's telephone number, including area code)

www.IGT.com

(Registrant's website)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes [] No [X]

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

TABLE OF CONTENTS

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

ii

PART I FINANCIAL INFORMATION

Item 1.

Unaudited Condensed Consolidated Financial Statements

1

CONSOLIDATED INCOME STATEMENTS

1

CONSOLIDATED BALANCE SHEETS

2

CONSOLIDATED STATEMENTS OF CASH FLOWS

3

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

28

FORWARD LOOKING STATEMENTS

28

OVERVIEW

28

RECENTLY ISSUED ACCOUNTING STANDARDS

30

CRITICAL ACCOUNTING ESTIMATES

30

CONSOLIDATED OPERATING RESULTS – A Year Over Year Comparative Analysis

34

BUSINESS SEGMENT RESULTS – A Year Over Year Comparative Analysis

37

LIQUIDITY AND CAPITAL RESOURCES

39

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

43

Item 4.

Controls and Procedures

45

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

45

Item 1A. Risk Factors

46

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

50

Item 3. Defaults Upon Senior Securities

50

Item 4. Submission of Matters to a Vote of Security Holders

50

Item 5. Other Information

50

Item 6. Exhibits

51

Signature

53

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

Acronym

Terminology

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

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

PART I FINANCIAL INFORMATION

Item 1.

Unaudited Condensed Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENTS

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

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

See accompanying notes

CONSOLIDATED BALANCE SHEETS

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

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

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q

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

See accompanying notes

Supplemental Cash Flows Information

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

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

See accompanying notes

4

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**1.****Summary of Significant Accounting Policies****Basis of Presentation and Consolidation**

Our consolidated financial statements include the accounts of International Game Technology (IGT, we, our, or the Company), including all majority-owned or controlled subsidiaries and VIEs for which we are the primary beneficiary. All appropriate inter-company accounts and transactions are eliminated.

We prepare our consolidated financial statements in accordance with SEC and US GAAP requirements and include all adjustments of a normal recurring nature that are necessary to fairly present our consolidated results of operations, financial position, and cash flows for all periods presented. Interim period results are not necessarily indicative of full year results. This quarterly report includes subsequent events evaluated through the date of financial statement issuance on August 13, 2009 and should be read in conjunction with our most recent Annual Report on Form 10-K.

Our fiscal year is reported on a 52/53-week period that ends on the Saturday nearest to September 30 each year. Similarly, our quarters end on the Saturday nearest to the last day of the quarter end month. For simplicity, this report presents all fiscal periods using the calendar month end as outlined in the table below. The third quarters of fiscal 2009 and 2008 both include 13 weeks of operations. The nine months ended June 30, 2009 included an extra week due to our 52/53-week accounting year.

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

Use of Estimates

Our consolidated financial statements are prepared in conformity with US GAAP. Accordingly, we are required to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our company and the industry as a whole, and information available from other outside sources. Our estimates affect reported amounts for assets, liabilities, revenues, expenses, and related disclosures. Actual results may differ from initial estimates.

Derivatives

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

We recognize derivative financial instruments as either assets or liabilities at fair value. Accounting for changes in the fair value of derivatives depends on the intended use and resulting designation. We are not party to leveraged

derivatives and do not hold or issue financial instruments for speculative purposes. We record derivative financial instruments on a net basis with counterparties for which a master netting arrangement has been executed. Derivative gains and losses are generally recognized in other income (expense).

Foreign Currency Hedging

We routinely use derivative financial instruments to minimize our market risk exposure related to our monetary assets and liabilities denominated in nonfunctional foreign currencies. The primary business objective of our economic hedging program is to minimize the impact to earnings from changes in foreign exchange rates. These hedging instruments are subject to fluctuations in value that are generally offset by the value of the underlying exposures being hedged. Counterparties to our agreements are major commercial banks. These

forward exchange contracts are generally not designated SFAS 133 hedges, and gains or losses are recognized in other income (expense).

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

Interest Rate Management

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

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

Recently Issued Accounting Standards

SFAS 157 (including FSPs)

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

SFAS 159

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

SFAS 161

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

FSP FAS 115-2 & FAS 124-2

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

FSP FAS 107-1 and APB 28-1

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

SFAS 165

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

SFAS 168

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

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

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

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

FSP EITF 03-6-1

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

EITF 07-5

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

FSP APB 14-1

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

SFAS 167

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

2.

Restructuring Costs

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

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

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

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

(In millions)

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

3.

Variable Interest Entities and Investments in Unconsolidated Affiliates

Variable Interest Entities

As the primary beneficiary, we consolidate our VIE WAP trusts in Iowa and New Jersey. The trusts are primarily responsible for administering jackpot payments to winners. The consolidation of these VIE trusts primarily increases jackpot liabilities and related assets, as well as interest income and equivalent offsetting interest expense. In conjunction with regulatory changes, the Iowa Trust was dissolved with its remaining assets and liabilities transferred to IGT in December 2008. Consolidated VIE trust assets and equivalent liabilities totaled \$94.7 million at June 30, 2009 and \$108.2 million at September 30, 2008.

Investments in Unconsolidated Affiliates

Las Vegas Gaming International

In October 2008, we entered into a strategic business arrangement with LVGI, an innovator in gaming software applications and hardware, whereby LVGI agreed to create applications for IGT's server-based gaming systems, and IGT agreed to purchase certain shares in LVGI. We advanced \$1.5 million in July 2008 and paid \$10.3 million in October 2008 to LVGI for a total investment of \$11.8 million to receive 4.7 million shares of LVGI convertible perpetual cumulative preferred stock and warrants to purchase an additional 1.5 million common shares. In February 2009, we deposited \$1.5 million with LVGI for a second potential investment, which is fully refundable if an agreement is not reached in August 2009.

As LVGI is not a publicly traded company and the preferred stock does not meet all the characteristics of in-substance common stock, this investment is accounted for under the cost method with earnings recorded only to the extent of distributed dividends. The warrants are not accounted for separately as they do not qualify as freestanding derivatives.

Progressive Gaming International Corp.

The fair value of our investment in PGIC's senior subordinated convertible notes, including accrued interest, was \$6.8 million in January 2009 when we acquired certain PGIC assets. See Note 7. We reduced the carrying value of our

investment in the notes to zero concurrent with the asset acquisition. PGIC subsequently filed a petition for relief under Chapter 7 of the US Bankruptcy Code. For the nine months ended June 30, 2009, we recorded a net investment loss of \$0.4 million. The embedded derivatives and warrants, accounted for separately under SFAS 133, had a combined fair value of zero at June 30, 2009 after recording a \$1.2 million loss during the first nine months of fiscal 2009.

China LotSynergy Holdings, Ltd.

Our CLS stock investment is accounted for as an available-for-sale security with an adjusted cost basis of \$12.2 million, quoted market price fair value of \$18.6 million, and unrealized gain of \$6.4 million recorded at June 30, 2009. We changed from accounting for this investment under the cost method during the third quarter of fiscal 2009 as the selling restriction is within one year of expiration.

Our CLS convertible note investment is accounted for as an available-for-sale security with amortized cost of \$77.1 million, fair value of \$77.2 million, and unrealized gain of \$0.1 million at June 30, 2009. We determined that no feature met the SFAS 133 definition of a derivative requiring bifurcation at June 30, 2009. See Note 16 about related foreign currency derivatives.

For our equity method joint venture with CLS, IGT Synergy Holding Ltd., as of and for the nine months ended June 30, 2009, we recognized a loss of \$0.1 million and \$13.5 million remains unfunded on our unconditional capital contribution commitment.

Walker Digital Gaming, LLC

At June 30, 2009, our 12% equity method investment in WDG totaled \$50.5 million and we had paid \$30.0 million of our \$60.0 million royalty advance commitment. Our analysis of this VIE determined that IGT is not the primary beneficiary because IGT does not provide more than half of the total equity or financial support. The carrying value of our equity investment and deferred royalty, collectively \$109.1 million, represents our maximum exposure to loss and there are no other terms of the arrangements as of June 30, 2009, explicit or implicit, that could require IGT to provide additional financial support.

We recognized losses from this unconsolidated affiliate of \$4.3 million and \$4.5 million for the nine months ended June 30, 2009 and 2008, respectively. The losses are largely comprised of intangible asset amortization. In August 2009, we paid \$20.0 million to WDG with an additional \$5.0 million contingency in connection with an agreement to relinquish our WDG equity ownership, restructure IP rights, and eliminate future IGT royalty obligations. This transaction will require an impairment evaluation of our equity investment and adjustment of the deferred royalty in the fourth quarter of fiscal 2009.

Aggregate Available-for-sale Investments in Unconsolidated Affiliates

The CLS stock and convertible note are available-for-sale investments, collectively with \$89.3 million of amortized cost, \$6.5 million of unrealized gain, and fair value of \$95.8 million at June 30, 2009. See Note 17 for factors related to estimated fair values.

4.

Inventories

	June 30, 2009	September 30, 2008
<i>(In millions)</i>		
Raw materials	\$ 85.2	\$ 99.8
Work-in-process	16.2	9.5
Finished goods	80.8	109.0
Total	\$ 182.2	\$ 218.3

5.

Property, Plant and Equipment

	June 30, 2009	September 30, 2008
<i>(In millions)</i>		
Land	\$ 62.7	\$ 62.9
Buildings	228.5	219.7
Leasehold improvements	14.3	12.8
Machinery, furniture and equipment	308.4	309.9
Gaming operations equipment	837.6	813.2
Total	1,451.5	1,418.5
Less accumulated depreciation	(884.0)	(827.6)
Property, plant and equipment, net	\$ 567.5	\$ 590.9

6.

Share-based Compensation

At June 30, 2009, shares available for grant under the IGT SIP (Stock Incentive Plan) totaled 23.2 million and we have \$73.2 million of unrecognized share-based compensation expected to be recognized over a weighted average period of 1.7 years. SIP activity is reflected below as of and for the nine months ended June 30, 2009.

Options	Shares <i>(thousands)</i>	Weighted Average		Remaining Contractual Term <i>(years)</i>	Aggregate Intrinsic Value <i>(millions)</i>
		Exercise Price <i>(per share)</i>			
Outstanding at beginning of fiscal year	16,780	\$	32.06		
Granted	4,808		10.47		
Exercised	(51)		9.53		
Forfeited	(1,245)		28.84		
Expired	(1,098)		31.79		
Outstanding at end of period	19,194	\$	26.81	6.6	\$ 21.8
Vested and expected to vest	19,042	\$	27.00	6.6	\$ 21.3
Exercisable at end of period	10,880	\$	30.27	5.0	\$ 1.4

Restricted Shares/Units	Shares <i>(thousands)</i>	Weighted Average		Remaining Vesting Period <i>(years)</i>	Aggregate Intrinsic Value <i>(millions)</i>
		Grant Date Fair Value <i>(per share)</i>			
Outstanding at beginning of fiscal year	1,663	\$	35.72		
Granted	1,141		10.76		
Vested	(523)		34.58		
Forfeited	(253)		28.33		
Outstanding at end of period	2,028	\$	22.83	2.6	\$ 30.5
Expected to vest	1,916	\$	22.00	2.7	\$ 28.8

7.

Acquisitions

Progressive Gaming International Corp.

In January 2009, we acquired certain operating assets of PGIC. The purchase consideration collectively totaled \$24.0 million, including \$17.3 million in cash and \$6.8 million of fair value from our note investment with accrued interest. See Note 3. Certain global assets and operations of PGIC were integrated with respective IGT offices serving Europe, Asia, Australia, Latin America, Canada, and the US. We believe this purchase will provide IGT with additional market opportunities using the PGIC technology to augment our current systems product offerings and increase our systems installed base.

With the business valuation not yet complete at June 30, 2009, we preliminarily allocated the purchase consideration to:

a

tangible assets of \$15.9 million, including cash of \$1.8 million

a

identifiable intangible assets of \$13.7 million

a

in-process R&D of \$0.6 million with no future alternative use, immediately charged to R&D

a

liabilities of \$6.2 million

Cyberview Technology, Inc.

In July 2008, we paid approximately \$88.6 million for substantially all of the assets of Cyberview, a group of companies that develop, produce, and implement innovative, integrated gaming systems solutions. The

purchase price included a separate license agreement providing rights to certain additional Cyberview patents. We anticipate this purchase will enable more immediate access to licensed betting office and video lottery markets in Europe, as well as further strengthen our IP portfolio and enhance our server-based initiatives.

We allocated the purchase price to:

a

tangible assets of \$30.8 million, including cash of \$16.5 million

a

identifiable intangible assets of \$31.5 million

a

goodwill of \$35.8 million, which may be deductible for tax purposes

a

liabilities of \$9.5 million

Million-2-1

In June 2008, we completed the acquisition of M-2-1, a mobile gaming company based in Manchester, UK, for \$10.3 million. Additionally, we committed to pay earn-out consideration up to a maximum of \$12.3 million, based on current exchange rates, payable through fiscal 2011 contingent upon M-2-1 meeting certain financial targets. If paid, a portion will be recorded as additional purchase consideration and a portion as compensation expense ratably over the service period through June 2011. In addition to gaining access to M-2-1's IP, we anticipate this business combination will enable us to establish new markets and channels for IGT's game content.

We allocated the purchase price to:

a

tangible assets of \$1.6 million, including cash of \$0.8 million

a

identifiable intangible assets of \$7.2 million

a

goodwill of \$6.4 million, which is not deductible for tax purposes

a

liabilities of \$4.9 million

8.

Allowances for Receivables

<i>(In millions)</i>	June 30, 2009	September 30, 2008
Allowance for doubtful accounts	\$ 32.5	\$ 19.1
Allowance for doubtful notes and contracts		
Current	\$ 18.7	\$ 10.1
Non-current	8.7	6.2
	\$ 27.4	\$ 16.3

9.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and equivalents, investments, and receivables. We place short-term investments in high credit quality financial institutions and in short-duration high-quality securities. With the exception of US Government and Agency securities, our short-term investment policy limits the amount of credit exposure in any one financial institution, industry group or type of investment. Cash on deposit may be in excess of Federal Deposit Insurance Corporation limits.

Our receivables are concentrated in the following legalized gaming regions at June 30, 2009:

North America	64 %	International	36 %
Nevada	9	Argentina	18
Oklahoma	8	Other Latin America	7
Alabama	8	Other (less than 5% individually)	11
Pennsylvania	7		
Other (less than 5% individually)	32		

Our unfunded development financing loans totaled \$30.6 million at June 30, 2009. Through June 30, 2009, IGT funded \$51.4 million of \$75.0 million in development financing extended to an Alabama charitable gaming property and \$93.0 million of financing extended to a consortium of Argentina gaming operators comprised of \$100.0 million for development and \$40.0 million for gaming equipment financing.

Auction Rate Securities

We

held \$21.6 million (par) of ARS at June 30, 2009. Our ARS lack liquidity because of failed auctions since February 2008, but we continue to receive interest payments and have no reason to believe the underlying assets are at risk of default.

In November 2008, we accepted ARS put rights offered by our broker, UBS Securities LLC, entitling us to sell our ARS through appropriate UBS entities at par plus accrued interest during the exercise period from June 30, 2010 through July 2, 2012. Upon acceptance of the put rights, we classified our ARS as trading and elected to carry the put at fair value under SFAS 159. We believe this election more accurately reflects the economic relationship between the put and the underlying ARS and future changes in the respective fair values will largely offset.

At June 30, 2009, the ARS and put were presented in current assets as our ability to exercise the put right was within one year. The estimated fair values of our ARS and related put rights totaled \$17.4 million and \$3.7 million, respectively, at June 30, 2009. See Note 17. The following changes in fair value were included in other income (expense) for the periods ended June 30, 2009:

a

net gain of \$0.5 million (\$0.7 million ARS gain and \$0.2 million put loss) for the quarter

a

net loss of \$0.5 million (\$4.2 million ARS loss and \$3.7 million put gain) for the nine months

10.

Goodwill and Other Intangibles

Goodwill

Activity by Segment

Nine Months Ended June 30, 2009

(In millions)

North America	International	Total
--------------------------	----------------------	--------------

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q

Beginning balance	\$	1,042.6	\$	115.9	\$	1,158.5
Business combination adjustments		0.2		0.2		0.4
Foreign currency adjustments		-		(6.2)		(6.2)
Ending balance	\$	1,042.8	\$	109.9	\$	1,152.7

Other Intangibles

Patent additions in the following table include capitalized legal costs. Business combination additions include purchase price valuation adjustments during the first year subsequent to acquisition.

Additions for the Nine Months	Business	Other	Weighted
Ended June 30, 2009	Combinations	Additions	Average
<i>(In millions, except life)</i>			<i>Life</i>
			<i>(years)</i>
Finite lived additions			
Patents	\$ -	\$ 6.2	8
Trademarks	0.5	-	7
Contracts	4.2	-	5
Developed technology	8.1	-	6
Customer relationships	0.8	-	9
Total	\$ 13.6	\$ 6.2	

Balances	June 30, 2009			September 30, 2008		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
<i>(In millions)</i>						
Finite lived intangible assets						
Patents	\$ 377.0	\$ 204.6	\$ 172.4	\$ 376.7	\$ 184.0	\$ 192.7
Contracts	26.0	15.2	10.8	25.1	15.5	9.6
Trademarks	3.6	2.0	1.6	3.3	1.9	1.4
Developed technology	76.1	34.0	42.1	68.4	27.1	41.3
Customer relationships	8.5	4.5	4.0	7.9	4.0	3.9
Total	\$ 491.2	\$ 260.3	\$ 230.9	\$ 481.4	\$ 232.5	\$ 248.9

Aggregate amortization expense totaled \$13.3 million in the current quarter versus \$11.0 million in the prior year quarter, and \$37.1 million in the nine months ended June 30, 2009 versus \$32.9 million for the same prior year period.

	2009	2010	2011	2012	2013
<i>(In millions)</i>					
Estimated annual amortization	\$ 47.3	\$ 42.9	\$ 38.8	\$ 32.8	\$ 29.5

11.

Credit Facilities and Indebtedness

Outstanding Debt	June 30,	September 30,
<i>(In millions)</i>	2009	2008
Domestic credit facility	\$ 239.0	\$ 1,345.0
Foreign credit facilities	1.3	15.0
Debentures	707.0	900.0
Notes	850.0	-
Bonds	500.0	-
Discount	(2.7)	-
Swap fair value adjustment	7.5	-
Installment purchase contract	2.0	3.1
Total notes payable	\$ 2,304.1	\$ 2,263.1

We were in compliance with all applicable debt covenants at June 30, 2009.

Amended Domestic Credit Facility

In June 2009, our \$2.5 billion credit facility was amended and restated providing for a reduced revolving credit line of \$2.1 billion, extending the maturity on \$1.7 billion to June 8, 2012 and leaving \$0.4 billion with the non-extended maturity of December 19, 2010. Upon the subsequent issuance of Bonds described below, the amended facility was further reduced by \$0.3 billion to a total commitment of \$1.8 billion, with \$1.5 billion extended and \$0.3 billion non-extended.

Interest under the amended facility is paid at least quarterly with rates and facility fees based on our public debt ratings or debt to capitalization ratio. Initially, extended commitments bear interest at LIBOR plus 260 bps with a facility fee of 65 bps and non-extended commitments bear interest at LIBOR plus 37.5 bps with a facility fee of 12.5 bps. At June 30, 2009, \$239.0 million was drawn on the amended facility (\$201.7 million extended and \$37.3 million non-extended), \$1.6 billion was available, and \$4.1 million was reserved for letters of credit. The outstanding amount carried a 2.65% weighted average interest rate.

Half of amounts outstanding at December 19, 2010 will convert to term loans due in six installments. The first five installments, equal to 1.25% of the converted principal, are due March 31, June 30, September 30, December 31, 2011 and March 31, 2012, and the final installment for the remaining outstanding principal is due on June 8, 2012.

IGT was required to repay \$780.0 million outstanding under the original facility and immediately re-borrow it under the terms of the amended facility. Non-recurring charges of \$4.4 million for associated breakage fees on the early repayments and deferred offering costs related to the commitment reduction were recorded in third quarter interest expense. Capitalized debt issuance costs of approximately \$35.4 million will be amortized to interest expense over the amended facility term.

Obligations under the amended facility are generally unsecured, except that in the event of certain declines in our debt ratings (as described in the amended facility), we will grant a lien on 100% and 66% of the equity interests of our direct and wholly-owned domestic and foreign subsidiaries, respectively, pursuant to the terms of a Pledge and Security Agreement. The Notes, Bonds or similar securities issued by IGT and certain interest rate hedges provided by lenders or their affiliates under the amended facility are permitted to share in any collateral granted. Any lien granted will be released if we satisfy the minimum debt rating requirements (as described in the amended facility) for at least three consecutive calendar months.

The amended facility includes the following covenants (all terms as defined per the amended facility):

a
a minimum ratio of adjusted EBITDA to interest expense (interest coverage ratio)

a
a maximum ratio of Total Debt to adjusted EBITDA (total leverage ratio)

a
certain restrictions on our ability 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 substantially all assets

§

change the nature of our business

§

declare or make cash dividends or distributions or pay cash for the purchase, redemption, retirement, defeasance, acquisition, cancellation or termination of our capital stock or equity interests or any return of capital to shareholders, provided that we may, as long as no continuing default has occurred, pay dividends of up to the lesser of \$0.06 per common share per fiscal quarter or \$25 million in any fiscal quarter

The amended 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. Upon the occurrence of an event of default under the credit facility, the lenders may cease making loans, terminate the commitments, and declare all amounts outstanding to be immediately due and payable.

All features of the amended facility were evaluated for SFAS 133 embedded derivatives and we determined no embedded features require bifurcation.

Foreign Credit Facilities

Our foreign credit facilities at June 30, 2009 totaled \$54.8 million, of which \$1.3 million was outstanding with a weighted average interest rate of 1.38%. These subsidiary credit facilities renew annually and are guaranteed by the parent company, International Game Technology.

2.6% Convertible Debentures

Our outstanding Debentures pay interest semiannually in June and December. Holders have the right to require IGT to redeem the Debentures for cash at 100% of their principal amount plus accrued and unpaid interest, if any, on December 15, 2009, 2011, 2016, 2021, 2026, and 2031. Given current market conditions and the recent trading price of our common stock, we believe it is likely that outstanding Debenture holders will exercise this put right in December 2009. At June 30, 2009, the Debentures were not classified as current liabilities because we had the intent and ability to refinance with our noncurrent domestic credit facility.

The Debentures are general unsecured obligations of IGT, ranking equal with all existing and future unsecured and unsubordinated obligations. The Debentures rank junior to all existing and future subsidiary liabilities, including trade payables.

We may use open market, privately negotiated, or structured transactions to repurchase our Debentures depending on market conditions and other factors. We repurchased no additional outstanding Debentures during the quarter. We recognized gains of \$6.5 million for the nine months ended June 30, 2009 related to the repurchase of 193,000 outstanding \$1,000 par Debentures. We repurchased no additional outstanding Debentures subsequent to the end of our third quarter through August 10, 2009.

We evaluated all features of the Debentures for SFAS 133 embedded derivatives and determined the contingent interest feature represents an embedded derivative requiring bifurcation. The value of this derivative was nominal at June 30, 2009, and no related derivative liability was recorded. Any future derivative value will be adjusted through interest expense for changes in fair value.

The market price condition for convertibility of our Debentures has not yet been met.

3.25% Convertible Notes

On May 11, 2009, we issued \$850.0 million aggregate principal amount of Notes, in a private placement for net proceeds of \$822.5 million, after deferred offering costs of approximately \$27.5 million, which will be amortized to interest expense over the Note term. We will pay interest at 3.25% on the Notes, semiannually on May 1 and November 1, beginning November 1, 2009. Proceeds from the Notes (net of amounts used for the separate note hedge transactions and funds provided by the separate warrant transactions described below) were used to reduce outstanding borrowings under our revolving domestic credit facility.

The Notes are general unsecured obligations of IGT, ranking equal with all existing and future unsecured and unsubordinated obligations. The Notes rank junior to all existing and future subsidiary liabilities, including trade payables. The Notes mature on May 1, 2014, unless earlier repurchased by IGT or converted. The Notes are not redeemable at IGT's option before maturity, except in certain circumstances relating to applicable gaming authority regulations. The terms of the Notes may, in certain circumstances, require us to grant a lien on equity interests if certain downgrades by rating agencies occur.

Each \$1,000 Note is initially convertible into 50.0808 shares of IGT common stock, representing a conversion price of \$19.97 per share. Upon conversion, a holder will receive cash up to the aggregate principal amount of each Note and shares of our common stock for any conversion value in excess of the principal amount as determined per the indenture. The conversion rate is adjustable upon the occurrence of certain events as defined in the indenture.

The Notes are convertible under any of the following circumstances:

a

during any fiscal quarter ending after September 30, 2009 (and only during such fiscal quarter), if the closing price of our common stock for at least 20 trading days in the last 30 trading day period of the immediately preceding fiscal quarter is more than 130% of the conversion price on the last trading day of the preceding fiscal quarter

a

if specified corporate transactions occur as described further in the indenture

a

at any time on or after February 1, 2014 until the close of business on the second scheduled trading day immediately preceding May 1, 2014

Holder who convert their Notes in connection with a make-whole adjustment event, as defined in the indenture, may be entitled to a premium increase in the conversion rate. Upon the occurrence of a fundamental change, as defined in the indenture, such as certain mergers and acquisitions of our common stock or liquidation, holders have the option to require IGT to repurchase their Notes at a purchase price equal to 100% of the principal, plus accrued and unpaid interest.

We evaluated all features of the Notes and determined no embedded features require bifurcation.

Note Hedges

In connection with the Notes, we paid an aggregate amount of \$177.3 million to certain initial Note purchasers or their affiliates (counterparties) for separate convertible note hedges to reduce the potential dilution upon conversion of the Notes in the event that the market value per share of our common stock, as measured under the Notes, at the time of exercise is greater than the conversion price of the Notes. The note hedges were separate transactions apart from the Notes or warrants described below and were recorded as an adjustment to stockholders' equity, net of deferred tax assets of \$65.5 million. Note holders have no rights with respect to the note hedges.

The note hedges cover, subject to anti-dilution and certain other customary adjustments substantially identical to those in the Notes, approximately 42.6 million shares of our common stock at a strike price of \$19.97, which corresponds to the initial conversion price of the Notes. The note hedges are exercisable at each conversion date of the Notes and expire upon the earlier of the last day the Notes remain outstanding or the second scheduled trading day immediately preceding May 1, 2014.

Warrants

Additionally, we sold warrants to acquire approximately 42.6 million shares of common stock, subject to anti-dilution and certain other customary adjustments, at a strike price of \$30.14 per share, to the counterparties for an aggregate amount of \$66.8 million. The warrants are separate transactions apart from the Notes or note hedges and accounted for as an adjustment to stockholders' equity. Note holders have no rights with respect to the warrants.

If the volume weighted average share price of our common stock, as measured under the warrants, exceeds the strike price of the warrants, the warrants will have a dilutive effect on our earnings per share. The warrants expire over a series of dates with the final expiration date set to occur in November 2014.

7.5% Bonds

On June 15, 2009, we issued \$500.0 million aggregate principal amount of 7.5% Bonds due 2019, under our March 2009 shelf registration and June 11, 2009 prospectus supplement, to certain underwriters pursuant to an underwriting agreement dated June 10, 2009. We received net proceeds of \$493.3 million after a discount of \$2.7 million and deferred offering costs of approximately \$4.0 million, both of which will be amortized to interest expense over the Bond term.

Interest is payable semiannually on June 15 and December 15, beginning December 15, 2009. We intend to use the net proceeds from the Bonds to fund the redemption of a portion of our Debentures expected to be put to us in December 2009. Until the Debentures can be redeemed, we temporarily repaid outstanding credit facility amounts and intend to re-borrow to fund the redemptions.

The Bonds are general unsecured obligations of IGT, ranking equal with all existing and future unsecured and unsubordinated obligations. The Bonds rank junior to all existing and future liabilities, including trade payables, of our subsidiaries. The Bonds mature on June 15, 2019, unless IGT redeems them earlier by paying the holders 100% of the principal amount plus a make-whole redemption premium as described further in the indenture.

The Bonds contain covenants which may, in certain circumstances:

a

restrict our ability to incur additional debt

a

limit our ability to enter into sale and leaseback transactions

a

restrict our ability to sell, transfer, lease or dispose of substantially all assets

a

require us to grant a lien on equity interests if certain downgrades by rating agencies occur

The Bonds specify a number of events of default (some of which are subject to applicable grace or cure periods), including the failure to make timely principal and interest payments or satisfy the covenants. Upon the occurrence of an event of default under the Bonds, the outstanding amounts may become immediately due and payable.

We evaluated all features of the Bonds and determined the Change of Control/Downgrade Put (described further in the indenture) represents an embedded derivative requiring bifurcation under SFAS 133. The value of this derivative was nominal at June 30, 2009 and no related derivative asset or liability was recorded. Any future derivative value will be adjusted through other income (expense) for changes in fair value.

Interest Rate Swap

In conjunction with our Bonds issued in June 2009, we entered into \$250.0 million notional value of interest rate swaps maturing on June 15, 2019, which effectively exchange 7.5% fixed interest payments for variable rate interest payments at one-month LIBOR plus 342 bps reset on the 15th of each month. Net amounts receivable or payable under the swaps will be settled semiannually on June 15 and December 15. See Note 16 for derivative values.

SEC Shelf Registration

In March 2009, we filed a shelf registration statement with the SEC which allows us to issue debt securities, in one or more series, from time to time in amounts, at prices and on terms determined at the time of offering. The Bonds were issued under this registration statement.

12.

Earnings Per Share

**Quarters Ended
June 30,**

**Nine Months Ended
June 30,**

	2009	2008	2009	2008
<i>(In millions, except per share amounts)</i>				
Net income	\$ 66.3	\$ 108.3	\$ 170.3	\$ 290.5
Basic weighted average shares outstanding	294.3	309.1	293.7	311.9
Dilutive effect of stock awards	0.7	2.0	0.5	3.2
Diluted weighted average shares outstanding	295.0	311.1	294.2	315.1
Basic earnings per share	\$ 0.23	\$ 0.35	\$ 0.58	\$ 0.93
Diluted earnings per share	\$ 0.22	\$ 0.35	\$ 0.58	\$ 0.92
Weighted average antidilutive stock awards shares excluded from diluted EPS	15.6	7.9	19.7	4.4

We repurchased no shares of our common stock during fiscal 2009 through August 10, 2009.

The treasury stock method used to calculate diluted weighted average shares outstanding includes shares related to our convertible Notes when our stock price exceeds the initial conversion price of \$19.97, plus potential shares from the sold warrants when our stock price exceeds the warrants' exercise price of \$30.14, and excludes the potential reduction in shares related to the purchased note hedges which have an exercise price of \$19.97 because it is anti-dilutive. This will result in additional EPS dilution when our stock price exceeds the conversion price of \$19.97 per share and further dilution when the stock price exceeds the warrant strike price of \$30.14 per share. See Note 11.

13.

Income Taxes

Our provision for income taxes is based on estimated effective annual income tax rates. 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 was 37.9% and 40.4% for the three months ended June 30, 2009 and 2008, respectively, and 30.6% and 40.4% for the nine months ended June 30, 2009 and 2008, respectively. The decrease in our effective tax rate in fiscal 2009 was primarily due to nonrecurring tax benefits, including significant settlements with the IRS, the reversal of accrued interest related to a tax accounting method change application and other discrete items.

We file income tax returns in the US federal, and various state, local and foreign jurisdictions. During the first quarter of fiscal 2009, we paid the IRS approximately \$18.2 million, including interest of \$6.3 million, as a result of the settlement of our fiscal 2000-2001 examinations. In general, we are no longer subject to any significant US federal, state, local or foreign income tax examination by tax authorities for years before fiscal 2002.

The IRS began an audit of our US federal income tax returns for fiscal years 2002 through 2004 in the first quarter of fiscal 2009. We are also subject to examination in state and foreign jurisdictions for the same years. 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.

Our taxes receivable, presented as a component of prepaid and other current assets, increased to \$79.4 million at June 30, 2009 from \$47.6 million at September 30, 2009 related to the timing of US estimated tax payments.

At June 30, 2009, our deferred tax assets included \$11.6 million reflecting the benefit of \$32.9 million in foreign loss carryforwards, which expire in varying amounts between 2015 and 2016. Realization is dependent on generating sufficient taxable income, in the specific foreign jurisdiction, prior to the expiration of the loss carryforwards. Although realization is not assured, we believe it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if future taxable income during the carryforward period is less than estimated.

As of June 30, 2009, we had \$69.5 million of gross unrecognized tax benefits excluding related accrued interest and penalties of \$43.5 million. As of June 30, 2009, \$80.6 million of our unrecognized tax benefits, including related accrued interest and penalties, would affect our effective tax rate, if recognized. During the nine months ended June 30, 2009, our unrecognized tax benefits decreased \$18.0 million, and related interest and penalties decreased \$7.8 million. We do not believe our total unrecognized tax benefits will change significantly during the next twelve months.

14.

Other Comprehensive Income

	Quarters Ended		Nine Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
<i>(In millions)</i>				
Net income	\$ 66.3	\$ 108.3	\$ 170.3	\$ 290.5
Currency translation adjustments	21.2	(0.8)	(8.8)	2.9
Investment unrealized gains (losses)	11.5	(0.2)	10.0	(4.7)

Comprehensive income	\$	99.0	\$	107.3	\$	171.5	\$	288.7
----------------------	----	------	----	-------	----	-------	----	-------

15.

Contingencies

Litigation

IGT has been named in and has brought lawsuits in the normal course of business. We do not expect the outcome of these suits, including the lawsuits described below, to have a material adverse effect on our financial position or results of future 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 has successfully moved for partial summary judgment on defendants' counterclaims for intentional interference with prospective business advantage and defendants' antitrust allegations related to the gaming machine market. IGT denies the remaining allegations. On May 9, 2007, the Court issued an order construing disputed terms of the asserted patent claims. On October 16, 2008, the Court issued summary judgment rulings finding certain of IGT's patents, including patents that IGT believes cover bonus wheel gaming machines, invalid as obvious. The rulings also found that Bally was not infringing certain patents asserted by IGT. Bally's antitrust and unfair competition counterclaims remain pending. On November 7, 2008, the Court issued an order staying the proceedings and certifying the summary judgment and claim construction rulings for immediate appeal. On December 1, 2008, IGT appealed the rulings to the US Court of Appeals for the Federal Circuit. On January 8, 2009, Bally moved to dismiss the appeal on jurisdictional grounds. On February 2, 2009, the Federal Circuit denied the Bally motion without prejudice to the parties raising jurisdictional issues in their merits briefs. All appellate briefs have been filed, but no date has been set for oral argument.

2006 Federal District Court of Delaware

On April 28, 2006, IGT filed a complaint in US District Court for the District of Delaware, alleging that defendants Bally Technologies, Inc., Bally Gaming Int'l, Inc., and Bally Gaming, Inc. infringed nine US patents held by IGT: US Patent Nos. RE 38,812; RE 37,885; 6,832,958; 6,319,125; 6,244,958; 6,431,983; 6,607,441; 6,565,434; and 6,620,046. The complaint alleges that the "BALLY POWER BONUSING™" technology infringes one or more of the claims of the asserted IGT patents. The lawsuit seeks monetary damages and an injunction. On June 30, 2006, defendants filed an answer denying the allegations in the complaint and raising various affirmative defenses to IGT's asserted claims. Defendants also asserted twelve counterclaims against IGT, including counterclaims for a declaratory judgment of non-infringement, invalidity, unenforceability of the asserted patents, antitrust violations, unfair competition, and intentional interference with prospective business advantage. IGT denies these allegations. Pursuant to stipulation of the parties, all claims and counterclaims except those relating to US Patent Nos. RE 37,885 ("the '885 patent"), RE 38,812 ("the '812 patent"), and 6,431,983 have been dismissed. All proceedings relating to Bally's antitrust, unfair competition, and intentional interference counterclaims have been stayed. On April 28, 2009, the court

issued a summary judgment ruling finding the '885 and '812 patents valid. The court also ruled that Bally's "Power Rewards" and "ACSC Power Winners" products infringe certain claims of the '885 and '812 patents. The court granted Bally's motion for summary judgment that Bally's "SDS Power Winners" does not infringe the '885 patent and "Power Bank" and "Power Promotions" do not infringe the '983 patent. The court denied Bally's motion for summary judgment that the '983 patent is invalid. The parties have agreed that Bally's counterclaim for a declaratory judgment on invalidity of the '983 patent will be dismissed without prejudice. A trial to determine the amount of damages incurred by IGT, and related matters, as a result of Bally's infringement has not yet been scheduled.

2006 Federal District Court of Nevada

On September 5, 2006, Bally Gaming, Inc. filed a complaint in US District Court for the District of Nevada alleging that IGT is infringing US Patent No. 7,100,916, entitled Indicator Wheel System. The products named in the complaint are IGT's gaming machines with wheel features, including, without limitation, Wheel of

Fortune®, Wheel of Gold®, The Addams Family™, American Bandstand®, The Apprentice™, Dilbert's™ Wheelbert™, Dreyfus, Carey Great Balls of Cash™, Elvira®, I Dream of Jeannie®, I Love Lucy™, Indiana Jones™: Raiders of the Lost Ark™, M*A*S*H*™, Megabucks® with Morgan Fairchild, Regis On the Town™, Sinatra™ and The Twilight Zone® gaming machines. The lawsuit seeks unspecified monetary damages and an injunction. On October 6, 2006, IGT filed an answer and counterclaims denying infringement and seeking a declaration that the patent is invalid and non-infringed. On September 9, 2008, the Court granted IGT's motion for summary judgment of invalidity and final judgment in IGT's favor was entered on October 3, 2008. Bally appealed the decision to the US Court of Appeals for the Federal Circuit. All appellate briefs have been filed, but no date has been set for oral argument.

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, which was 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. IGT intends to seek review by the US Supreme Court. A status hearing was held in the District Court on February 13, 2009.

Brochu v. Loto Quebec

Loto Quebec commenced an action in warranty against VLC, Inc., a wholly-owned subsidiary of IGT, and another manufacturer of video lottery machines in October 2003, in the Superior Court of the Province of Quebec, District of Quebec, seeking indemnification for any damages that may be awarded against Loto Quebec in a class action suit, also filed in the Superior Court of the Province of Quebec. The class action claim against Loto Quebec, to which neither IGT nor any of its affiliates are parties, was filed by Jean Brochu on behalf of himself and a class of other persons who allegedly developed pathological behaviors through the play of video lottery machines made available by Loto Quebec in taverns and other public locations. In this action, the plaintiff seeks to recover on behalf of the class damages of approximately CAD\$578.7 million, representing CAD\$4,863 per class member, and CAD\$119.0 million in punitive damages. Loto Quebec filed its Plea in Defense in the main action in February 2006. On August 1, 2008, Loto Quebec filed a discontinuance of the action in warranty against VLC. Notwithstanding the discontinuance, Loto Quebec may still pursue the claims it asserted, or could have asserted, in the action in warranty through arbitration against VLC. The trial of the class action against Loto Quebec commenced on September 15, 2008 and is ongoing.

IBEW Local 697 Pension Fund v. International Game Technology, et al.

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 Securities Exchange Act against IGT and certain of its officers, one of whom is a director. 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. Plaintiff's counsel issued a press release on July 30, 2009, announcing the lawsuit's pendency, the claims asserted, the purported class period, and the right of any class member to seek lead plaintiff status. This press release initiated the

60-day statutory period for shareholders to file a motion to seek lead-plaintiff status.

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 the guidance in *SOP 96-1, Environmental Remediation Liabilities*, we determined the incurrence of additional remediation costs is neither probable nor reasonably estimable and no liability is recorded at this time.

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 are 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.

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 the US Court of Appeals for the Ninth Circuit has not yet issued a decision.

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, 2009 totaled \$57.9 million, with a remaining life of approximately seven years.

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 and guarantees 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 gaming operations totaled \$5.7 million at June 30, 2009. We are liable to reimburse the bond issuer in the event of exercise due to nonperformance.

Letters of Credit

Outstanding letters of credit issued under our line of credit to ensure payment to certain vendors and governmental agencies totaled \$4.1 million at June 30, 2009.

IGT Licensor Arrangements

Our sales agreements that include software and IP licensing arrangements may provide a clause whereby IGT indemnifies the third party licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement. 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 costs due to infringement claims. As we consider the likelihood of incurring future costs to be remote, no liability has been recorded.

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, <i>(In millions)</i>	2009	2008
Balance at beginning of fiscal year	\$ 8.4	\$ 8.7
Reduction for payments made	(5.6)	(6.9)
Accrual for new warranties issued	7.8	8.5
Adjustments for pre-existing warranties	(1.9)	(0.7)
Ending balance	\$ 8.7	\$ 9.6

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.

16.**Derivatives**

Our derivative accounting policies are described in Note 1.

Foreign Currency Hedging

We hedge our net foreign currency exposure related to monetary assets and liabilities denominated in nonfunctional currency. The notional amount of foreign currency contracts hedging this exposure totaled \$21.3 million at June 30, 2009 and \$43.4 million at September 30, 2008.

In addition, we executed 5-year forward contracts designated as SFAS 133 foreign currency 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 3. The notional amount of foreign currency contracts hedging this exposure totaled \$49.9 million, for which there was no ineffectiveness during the nine months ended June 30, 2009.

Interest Rate Management

In conjunction with our Bonds issued in June 2009 (see Note 11), we entered into \$250.0 million notional value of interest rate swaps, which effectively exchange 7.5% fixed interest payments for variable rate interest payments at one-month LIBOR plus 342 bps reset on the 15th of each month. Net amounts receivable or payable under the swaps will be settled semiannually on June 15 and December 15. The interest rate swaps are designated SFAS 133 fair value hedges against changes in the fair value of a portion of our Bonds. Our assessment determined that the interest rate swap is highly effective.

Balance Sheet Fair Value and Location

	June 30, 2009	September 30, 2008
<i>(In millions)</i>		
Non-FAS 133 Derivatives		
Foreign currency contracts:		
Other assets (current)	\$ -	\$ 0.4
Other liabilities (current)	2.2	0.2
FAS 133 Designated Derivatives		
Foreign currency contracts:		
Other liabilities (non-current)	\$ -	\$ 0.4
Interest Rate Swap:		
Other assets (non-current)	7.2	-

Income Statement Gain (Loss) and Location

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
<i>(In millions)</i>				
Non-FAS 133 Derivatives				
Foreign currency contracts:				
Other income (expense)	\$ (1.3)	\$ 1.9	\$ (2.4)	\$ 4.1
FAS 133 Designated Derivatives				
Foreign currency contracts:				
Other income (expense)	\$ 0.2	\$ 0.4	\$ 0.4	\$ 0.2
Interest rate swap - ineffectiveness:				
Other income (expense)	(0.3)	-	(0.3)	-
Interest rate swap - effectiveness:				
Interest expense	0.5	-	0.5	-

17.

Fair Value Measurements

We adopted the provisions of SFAS 157 and applicable FSPs for financial assets and liabilities at the beginning of fiscal 2009, electing to apply SFAS 157 for nonfinancial assets and liabilities effective at the beginning of fiscal 2010. We also adopted SFAS 159 at the beginning of fiscal 2009, which permits us to elect fair value measurement for most financial instruments. As of June 30, 2009, we have made only one election to carry our ARS put at fair value. See Note 9.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price), in the principal or most advantageous market, in an orderly transaction between market participants, on the measurement date. SFAS 157 also established a fair value hierarchy based on observable and unobservable inputs:

a

Level 1 - Quoted market prices in active markets for identical instruments

a

Level 2 - Quoted market prices for similar instruments, using observable market based inputs or unobservable inputs corroborated by market data

a

Level 3 - Unobservable inputs using our own assumptions when observable inputs are unavailable

Financial Assets and Liabilities at June 30, 2009

	Fair Value	Level 1	Level 2	Level 3
<i>(In millions)</i>				
Assets (Liabilities) Carried at Fair Value				
Investments in unconsolidated affiliates	\$ 95.8	\$ 18.6	\$ -	\$ 77.2
Investments in ARS and put rights	21.1	-	-	21.1
Derivative assets	7.2	-	7.2	-
Derivative liabilities	(2.2)	-	(2.2)	-

**Carrying
Amount**

Fair Value

(In millions)

Assets (Liabilities) Not Carried at Fair Value

Jackpot investments	\$ 474.4	\$ 522.2
---------------------	----------	----------

Notes & contracts receivable	352.5	357.7
Jackpot liabilities	(599.7)	(563.5)
Credit facilities & indebtedness	(2,304.1)	(2,333.7)

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

	Investments in Unconsolidated Affiliates	Investments in ARS and Put Rights
Nine Months Ended June 30, 2009		
<i>(In millions)</i>		
Beginning balance	\$ 80.4	\$ 19.6
Total gain (loss):		
Included in other income (expense) - other	(1.7)	(0.5)
Included in other comprehensive income	2.4	2.0
Purchases, issuances, accretion, settlements	(3.9)	-
Ending balance	\$ 77.2	\$ 21.1
 Net change in unrealized gain (loss) included in earnings related to instruments still held	 \$ -	 \$ (0.5)

Summary of Valuation Techniques and Balance Sheet Presentation

Cash and equivalents, accounts receivable, accounts payable, and other accrued liabilities are not presented in the table above as the carrying value approximates fair value.

Financial Instruments Carried at Fair Value

Investments in unconsolidated affiliates carried at fair value are estimated using quoted market prices when available or discounted cash flow models incorporating market participant assumptions, including credit quality and market interest rates and/or a Black Scholes formula and lattice models with certain assumptions, such as stock price and volatility. These investments are presented as a component of other assets. See Note 3.

Investments in ARS are valued using discounted cash flows, with certain assumptions related to lack of liquidity and observable market transactions. The put rights are valued based on the difference between the ARS par and fair value discounted for the broker's non-performance risk and the time remaining until the exercise period. The ARS and related put rights are presented as a component of other assets. See Note 9.

Derivative assets and liabilities are valued using quoted forward pricing from bank counterparties and LIBOR credit default swap rates for non-performance risk, and approximate the net settlement amount if the contracts were settled at the reporting date. These are presented primarily as a component of other assets and other liabilities. See Note 16.

Financial Instruments Not Carried at Fair Value

Jackpot investments are valued based on quoted market prices.

Notes and contracts receivable are valued using discounted cash flows incorporating expected payments and current market interest rates relative to the credit risk of each customer.

Jackpot liabilities are valued using discounted cash flow models incorporating estimated funding rates, future payment timing, and IGT's nonperformance credit risk.

Credit facilities and indebtedness are valued at quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market when available. Otherwise, the fair value is determined using discounted cash flow models of outstanding borrowings, expected payments, and current borrowing rates.

18.

Business Segments

We view our business in the following two operating segments based on customer regions:

a

North America includes our operations in the US and Canada

a

International encompasses our efforts in all other jurisdictions worldwide

Certain income and expenses related to company-wide initiatives are managed at the corporate level and not allocated to any operating segment. 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 from one segment may benefit other segments. We continually evaluate the alignment of our business development and administrative functions, which resulted in changes to segment allocations, and prior period operating income and income before tax have been recast accordingly.

	Quarters Ended		Nine Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
<i>(In millions)</i>				
NORTH AMERICA				
Revenues	\$ 397.8	\$ 528.6	\$ 1,264.3	\$ 1,441.9
Gaming operations	249.7	295.9	774.2	893.9
Product sales	148.1	232.7	490.1	548.0
Gross profit	232.5	303.5		