INTERNATIONAL GAME TECHNOLOGY
Form 10-K
November 26, 2013

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

FORM 10-K

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

For the Fiscal Year Ended September 28, 2013
(presented as September 30, 2013)
OR

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

For the transition period from ____ to ____

Commission File Number 001-10684

International Game Technology

Nevada	88-0173041
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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 x No o

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of voting stock held by non-affiliates of the registrant on March 31, 2013: $4.3 billion.

The number of shares outstanding of each of the registrant's classes of common stock, as of November 22, 2013:
248.9 million shares of common stock at $.00015625 par value.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of our Proxy Statement relating to the 2014 annual shareholders meeting are incorporated by reference in Part III. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended September 28, 2013

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

Fiscal dates—actual:	Fiscal dates—as presented:
September 28, 2013	September 30, 2013
September 29, 2012	September 30, 2012
October 1, 2011	September 30, 2011
October 2, 2010	September 30, 2010
October 3, 2009	September 30, 2009

Abbreviation/term	Definition
Anchor	Anchor Gaming
AOCI	Accumulated other comprehensive income (loss)
APAC	Asia, Australia, New Zealand, and the Pacific
APIC	additional paid-in-capital
ASP	average sales price (machines)
ASR	accelerated share repurchase transaction
ASU	Accounting Standards Update
5.35% Bonds	5.35% fixed rate notes due 2023
5.5% Bonds	5.5% fixed rate notes due 2020
7.5% Bonds	7.5% fixed rate notes due 2019
B2B	Business-to-business
B2C	Business-to-customer/consumer
bps	basis points
CDS	central determination system
CEO	chief executive officer
CFO	chief financial officer
CLS	China LotSynergy Holdings, Ltd.
DAU	Daily Active Users
DCF	discounted cash flow
DoubleDown	Double Down Interactive LLC
EBITDA	earnings before interest, taxes, depreciation, and amortization
EMEA	Europe (including the UK), the Middle East, and Africa
Entraction	Entraction Holding AB
EPS	earnings per share
ERISA	Employee Retirement Income Security Act
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
IGT, we, our, the Company	International Game Technology and its consolidated entities
IGT rgs®	IGT Remote Game Server™
IP	intellectual property
IRS	Internal Revenue Service
LAC	Latin America (Mexico, South and Central America) and the Caribbean
LIBOR	London inter-bank offered rate
MAU	Monthly Active Users
MDA	management’s discussion and analysis of financial condition and results of operations
MLD™	Multi-layer-display
Notes	3.25% convertible notes due 2014
OCI	Other comprehensive income (loss)

OSHA	Occupational Safety & Health Administration
pp	percentage points
R&D	research and development

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

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FORWARD LOOKING STATEMENTS

This report contains statements that do not relate to historical or current facts, but are “forward looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to future events or trends, our future prospects and proposed new products, services, developments, or business strategies, among other things. These statements can generally (although not always) be identified by their use of terms and phrases such as anticipate, appear, believe, could, would, estimate, expect, indicate, intend, may, plan, predict, project, pursue, will, continue, and other similar terms and phrases, as well as the use of the future tense.

Examples of forward looking statements in this report include, but are not limited to, the following categories of expectations about:

- our ability to successfully introduce new products and their impact on replacement demand
- the timing, features, benefits, and expected continued or future success of new product introductions and ongoing product, marketing, and strategic initiatives
- our expected future financial and operational performance
- our strategic and operational plans
- our leadership position in the gaming industry or in online casino-style social gaming
- the advantages offered to customers by our anticipated products and product features
- economic conditions and other factors affecting the gaming industry
- gaming growth, expansion, and new market opportunities
- expected trends in the demand for our products
- developments with respect to economic, political, regulatory and other conditions affecting our international operations
- mergers, acquisitions and divestitures, including the expected benefits of completed acquisitions and expectations for, possible acquisitions of, or investments in, businesses, products, and technologies
- research and development activities, including anticipated benefits from such activities
- fluctuations in future gross margins, tax rates, and liabilities
- expectations regarding product sales or machine placements
- legislative, legal or regulatory developments and related market opportunities
- available capital resources to fund future operating requirements, capital expenditures, payment obligations, acquisitions, dividends, and share repurchases
- losses from off-balance sheet arrangements
- financial returns to shareholders related to management of our costs
- the impact of recently adopted accounting pronouncements
- the outcome and expense of litigation

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 I, Item 1A, Risk Factors, in this report for a discussion of 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.

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PART I

Item 1. Business

International Game Technology is a global gaming company specializing in the design, development, manufacture, and marketing of casino-style gaming equipment, systems technology, and game content across multiple platforms—land-based, online real-money and social gaming. We are a leading supplier of gaming entertainment products worldwide and provide a diverse offering of quality products and services at competitive prices, designed to enhance the gaming player experience.

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

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

Fiscal Year	Ended		Weeks
	Actual	Presented as	
2013	September 28, 2013	September 30, 2013	52
2012	September 29, 2012	September 30, 2012	52
2011	October 1, 2011	September 30, 2011	52
2010	October 2, 2010	September 30, 2010	52
2009	October 3, 2009	September 30, 2009	53

Unless otherwise indicated in this report:

- International Game Technology, IGT, we, our, or the Company refers to International Game Technology and its consolidated entities
- italicized text with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors, and additional IGT trademark information is available on our website at www.IGT.com
- references to years relate to our fiscal years ending September 30
- current refers to the fiscal year ended September 30, 2013
- Note refers to the Notes of our Consolidated Financial Statements in Item 8 of this report
- references to EPS are on a diluted basis
- table amounts are presented in millions, except units and EPS
- discussion and analysis relates to results for continuing operations of the current year as compared with the prior year
- information posted on our website is not incorporated into this Form 10-K

BUSINESS SEGMENTS

We derive our revenues from the distribution of casino games, gaming equipment and systems technology for land-based and online (social and real-money) markets. Operating results reviewed by our CEO encompass all revenue sources within each geographical region. We currently view our business in two operating segments, North America and International, each incorporating all revenue categories—Gaming Operations, Product Sales, and Interactive. Unless otherwise noted, prior year amounts throughout this report have been adjusted for operations discontinued during 2011, as further described in Note 22.

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- **North America**, comprising 78% of consolidated revenues in 2013, 76% in 2012 and 2011, includes operations associated with our land-based and online real-money customers located in the US and Canada, as well as all customers serviced by our US-based social gaming operations.

- International, comprising 22% of consolidated revenues in 2013, 24% in 2012 and 2011, consists of our land-based and online real-money customers located in all other jurisdictions worldwide.

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We measure segment profit on the basis of operating income. Certain income and expenses are managed at the corporate level and not allocated to an operating segment. Other segment and financial information is contained in our MDA BUSINESS SEGMENT RESULTS and Note 19 is incorporated here by this reference.

REVENUE CATEGORIES

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

Gaming Operations

Comprising 42% of consolidated revenues in 2013, 48% in 2012, and 53% in 2011, gaming operations generates recurring revenues by providing customers with proprietary land-based casino gaming equipment, systems, content licensing, and services under a variety of arrangements. Our gaming operations pricing arrangements are largely variable where casinos pay service fees to IGT based on a percentage of amounts wagered (also referred to as coin-in) or net win. Variable fee units comprised 83% of our IGT owned gaming operations installed base at September 30, 2013. Fixed fee units comprised 17% of our IGT owned gaming operations installed base at September 30, 2013 and pricing arrangements are typically based on a daily or monthly fee.

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

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

The IGT owned gaming operations installed base is comprised of our MegaJackpots® premium branded gaming machines, including WAP and stand-alone units, as well as other lease or rental units, including CDS and racino machines. IGT owned units are recorded on our balance sheet as part of property, plant and equipment. Casino owned units represent machines sold to our customers that also provide a recurring royalty fee. Gaming operations revenues are generated from the units reflected in the table below, as well as from other service fees for systems access, game content, and other gaming equipment lease or rental.

Gaming Operations Units ('000)	2013	2012	2011
IGT owned units - MegaJackpots® (Premium brand)	25.1	27.1	27.8
IGT owned units - Lease (CDS, racino, other)	29.5	30.0	26.1
IGT installed base	54.6	57.1	53.9
Casino owned	22.1	21.6	20.4
Total	76.7	78.7	74.3

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Product Sales

Comprising 46% of consolidated revenues in 2013, 45% in 2012 and 2011, product sales revenues are generated from the sale of land-based gaming equipment, content, systems, services, and component parts (including kit conversions).

Product Sales Composition	2013	2012	2011
Slot machines	69 %	67 %	63 %
Non-machine	31 %	33 %	37 %
Gaming systems	19 %	20 %	22 %
Parts & conversions	9 %	10 %	12 %
Other fees & services	3 %	3 %	3 %

Interactive

Comprising 12% of consolidated revenues in 2013, 7% in 2012, and 2% in 2011, interactive revenues are generated from online social gaming and real-money gaming products and services, presented in the following two groups.

Social Gaming

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

- DAU measures the number of active users that play games at the DoubleDown Casino® each day. Average DAU is the average of the DAUs for each day during the period.
- MAU measures the number of active users that played games at the DoubleDown Casino® at least once in the last 30 days. Average MAU is the average of the MAUs each day during the period.
- DAU/MAU is a ratio used to monitor user engagement.
- Bookings represent the total amount of virtual casino chips sold during the period, as opposed to revenues, which include deferral adjustments based on the estimated period of service or chip consumption.

Unlike many other online casino-style social games where each game is a unique application, DoubleDown operates as a single casino application with multiple games where all games are available to the player within a single application. As a result, DoubleDown’s reported number of active users is the equivalent of the number of unique users reported by many other online social casino-style game operators. Our DoubleDown strategy focuses on increasing DAU as an indicator of user engagement and average bookings per DAU. For 2013 DoubleDown averaged DAU of 1.6 million and average bookings per DAU of $0.37.

IGTi

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

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

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STRATEGIC BUSINESS ACQUISITIONS AND AFFILIATES

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

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

In January 2012, we acquired Seattle based Double Down Interactive LLC., developer and operator of the online social gaming DoubleDown Casino® found on Facebook. DoubleDown has a broad and expanding game portfolio, offering blackjack, slots, slot tournaments, video poker, bingo, and roulette to social gamers around the world. This strategic acquisition has established IGT's position in social casino-style gaming and strengthened our core business with added distribution channels for IGT game content. DoubleDown is presented as a component of our North America segment.

Acquisitions and affiliate investments are also discussed in Notes 2 and 21. Discontinued operations, and material asset losses or impairment recognized during the last three years are discussed in our MDA—OVERVIEW, MDA—CONSOLIDATED RESULTS, and Notes 20 and 22. Risks related to business combinations and investments are described in Part I—Item 1A.

PRODUCTS

We provide a broad range of casino-style game content, equipment and systems technology for land-based and online social and real-money gaming markets under for-sale, revenue sharing, and other leasing arrangements. Concentrating on game content development and distribution across multiple channels, IGT is making meaningful inroads into achieving convergence between and amongst the online and land-based gaming worlds.

Games

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

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

Land-Based	Multi-Player
Premier (MegaJackpots®)	Electronic Table
Multi-Level Progressive	Virtual Racing
Wide-Area Progressive	
Stand-Alone	Interactive (includes mobile)
Bonusing Concepts	Online Social
Core	Slots
Video Reel	Video Poker
Spinning Reel	Table Games
Video Poker	Bingo
Multi-Game (Game King®)	Online Real-money
Game Families	MegaJackpots®
Game Hardware Series	Slots

Central Determination System	Table Games
Bingo (Class II)	Fixed Odds
VLT	Video Poker
	Bingo & Keno

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Cabinet Configurations

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

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

Systems

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

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

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

Interactive

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

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

RESEARCH & DEVELOPMENT

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

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We dedicate approximately 1,860 employees worldwide to R&D efforts covering multiple engineering disciplines, including hardware, electrical, systems and software for land-based, online social, and online real-money applications. We specialize in progressive creative game development including design, math, graphics and audio. Our primary development facilities are located in Nevada (Reno and Las Vegas), California (San Francisco), Washington (Seattle), China (Beijing), and Australia (Sydney). Additional global design centers provide local community presence, customized products, and regional production where beneficial or required.

Our games are created primarily by employee designers, engineers, and artists, as well as third-party content creators. We also use third-party technologies to improve the yield of our development investment and concentrate increased resources on product differentiation engineering. A significant amount of our R&D efforts during 2013 continued to focus on expanding interactive online opportunities through content development synergies related to the convergence of land-based, online social, and online real-money channels. Our investment in R&D totaled $235.0 million in 2013, $217.0 million in 2012, and $194.7 million in 2011.

Intellectual Property

Our IP portfolio of patents, trademarks, copyrights, and other licensed rights are significant to our business. At September 30, 2013, we held approximately 6,000 patents or patent applications and approximately 4,100 trademarks filed and registered worldwide. The weighted average remaining useful life of our capitalized patent costs at September 30, 2013 was approximately 2.8 years. Our brand licensing arrangements have various expiration dates through 2020 and commonly contain options to extend.

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

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

SALES AND MARKETS

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

As of September 30, 2013, we maintained 59 offices worldwide to respond to customer needs and our Global Support Center is staffed with experts in technical issue resolution. We provide access to product information and 24-hour customer service through our website and offer a variety of customer training designed to ensure success in using our products and services to their full potential.

North America

The gaming industry installed base of slot machines in the US and Canada has been relatively stable over the last few years, at just over 939,000 legal gaming devices by our estimates. Growth of legalized gaming is largely driven by new jurisdictions considering gaming tax revenues as a means to address budget shortfalls. Sales or placements of gaming machines are also affected by new openings or expansion of existing gaming properties and the machine replacement cycle, as well as economic conditions. Additionally, we expanded into online social gaming with the acquisition of DoubleDown in January 2012.

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International

The international market opportunities are expected to grow at a faster pace in the future than in North America. We continue localizing our sales presence in these international markets, as we increase scalability and prepare for new opportunities. Our global strategy capitalizes on our North America experience, while customizing products for foreign languages, unique local preferences, and regulatory requirements.

Our international gaming markets included the following customer regions at September 30, 2013:

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

As the legalization and regulation of online gaming continues to unfold, our strategic intent is to enter and do business in those regulated markets that offer attractive return characteristics and build on our existing capabilities. In conjunction with an evaluation of resources, products, and markets from a commercial and compliance perspective, during our 2012 fourth quarter we determined it was prudent to consolidate our IGTi product development and customer service resources in Europe primarily acquired with Entraction, due in part to diminished returns largely related to regulatory challenges. As a result, we began exiting certain online turnkey and poker operations and closing or reducing certain facilities in Europe (Stockholm and Tallinn). Resulting impairment and restructuring charges are discussed in our MDA-CONSOLIDATED RESULTS, MDA--BUSINESS SEGMENT RESULTS, and Note 20.

OPERATIONAL OVERVIEW

Manufacturing and Suppliers

Our main manufacturing facilities are located in Nevada. We currently devote approximately 623,000 square feet in our Reno, NV facilities and approximately 223,000 square feet in our Las Vegas, NV facility to product development, manufacturing, warehousing, shipping, and receiving. Our manufacturing operations primarily involve the configuration and assembly of electronic components, cables, harnesses, video monitors, and prefabricated parts purchased from outside sources. We also operate facilities for silkscreen manufacturing and digital design.

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

Maintaining our commitment to quality, we recertified our ISO 9001.2008 Quality Management System certification at our Reno, Las Vegas, Bozeman (Montana) and Hoofddorp (Netherlands) facilities during 2013. In May 2013, we added the China Research and Development Center to our ISO Certification. ISO standards represent an international consensus with respect to the design, manufacture, and use of practices intended to ensure ongoing customer satisfaction with consistent delivery of products and services.

We generally carry a sufficient amount of inventory related to the breadth of our product lines. We reasonably expect to fill our manufacturing product order backlog for both gaming operations and product sales within the next fiscal year. Backlog for gaming operations machine units totaled 2,400 at October 31, 2013 and 7,800 at October 31, 2012. Product sales backlog totaled approximately $151.6 million at October 31, 2013 and $197.3 million at October 31, 2012.

Employees

As of September 30, 2013, we employed over 5,000 individuals worldwide, with approximately 4,100 in our North America segment and 900 in our International segment. We continue to review our costs and organizational structure to maximize efficiency and align expenses with the current and long-term business outlook.

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COMPETITION AND PRODUCT DEMAND

IGT operates within an increasingly competitive market. The markets for our gaming products and services are constantly evolving and technological advances increasingly employ personal computers, mobile communication, and other digital media devices, which have reduced barriers to entry. Our competitors range from small, localized companies to large, multi-national corporations in every jurisdiction where we conduct business. Our most significant competitors include Ainsworth Game Technology Ltd, Aristocrat Leisure Limited, Bally Technologies, Inc., Konami Gaming Inc., Novomatic Group of Companies, and WMS Industries, Inc. (acquired by Scientific Games Corporation on October 18, 2013).

We believe machine replacement sales are driven by customer strategies to upgrade casino platforms with player enticing new game content and technologies that increase yields, cost savings, convenience, and other benefits. The replacement cycle can be accelerated by emerging technologies that improve operators' profitability, such as online and mobile delivery mechanisms that increase cross-functionality, game features that increase player appeal, or application modules that increase operator efficiencies.

New or expanding casinos generate new product demand and stimulate replacement demand at neighboring properties compelled to upgrade their gaming platforms to remain competitive. New jurisdictions establishing legalized gaming also create product demand and continue to grow the overall installed base of gaming devices.

We focus our development efforts on the creation of game content designed for distribution convergence across multiple channels with superior functionality and features, using innovative architecture and technologies, resulting in a high degree of customer acceptance and player preference. We also strive to maintain an edge in our quality of customer support and efficient product implementation. The breadth of our gaming products and diversity of our innovative game library contribute to our competitive advantage.

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

AVAILABLE INFORMATION

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

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

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

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

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

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GOVERNMENT GAMING REGULATION

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

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

Our operating entities and key personnel have obtained or applied for all required government licenses, permits, registrations, findings of suitability, and approvals necessary to manufacture and distribute gaming products in all jurisdictions where we do business. Although many regulations at each level are similar or overlapping, we must satisfy all conditions individually for each jurisdiction.

Gaming laws and regulations serve to protect the public and ensure that gaming related activity is conducted honestly, competitively, and free of corruption. Regulatory oversight additionally ensures that the local authorities receive the appropriate amount of gaming tax revenues. As such, our financial systems and reporting functions must demonstrate high levels of detail and integrity.

Certain regulators not only govern the activities within their jurisdiction, but also monitor our activities in other jurisdictions to ensure that we comply with local standards on a worldwide basis. As a Nevada licensee, state regulatory authorities require us to maintain Nevada standards for all operations worldwide. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is provided in Exhibit 99.1 of this Annual Report on Form 10-K, incorporated herein by reference.

The nature of the industry and our worldwide operations make this process very time consuming and require extensive resources. We employ additional community staff members and legal resources familiar with local customs in certain jurisdictions to assist in keeping us compliant with applicable regulations worldwide. Through this process, we seek to assure both regulators and investors that all our operations maintain the highest levels of integrity and avoid any appearance of impropriety. We have never been denied a gaming related license, nor have our licenses ever been suspended or revoked.

Risk factors related to gaming regulation are discussed in Part 1, Item 1A. Changes in or new interpretations of existing gaming laws and regulations may hinder or prevent us from continuing to operate in certain jurisdictions. Regulatory challenges related to our interactive operations in Europe are discussed in our MDA-CONSOLIDATED RESULTS, MDA--BUSINESS SEGMENT RESULTS, and Note 20.

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Item 1A. Risk Factors

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

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

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

Furthermore, an extended economic downturn could impact the ability of our customers to make timely payments to us which could adversely affect our results of operations. We have, and may continue, to incur additional provisions for bad debt related to credit concerns on certain receivables, including in connection with customer financing we provide to customers, which has recently increased in amount.

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

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

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

Any license, permit, approval or finding of suitability may be revoked, suspended or conditioned at any time. We may be unable to obtain or maintain all necessary registrations, licenses, permits or approvals, and could incur fines or experience delays related to the licensing process which could adversely affect our operations and our ability to retain key employees.

To expand into new jurisdictions, we may need to be licensed, obtain approvals of our products and/or seek licensure of our officers, directors, major stockholders, key employees or business partners. If we fail to seek, do not receive, or receive a revocation of a license in a particular jurisdiction, we cannot sell, service or place on a participation or leased basis our products in that jurisdiction and our issued licenses in other jurisdictions may be impacted. Any delays in obtaining or difficulty in maintaining regulatory approvals needed for expansion within existing markets or into new jurisdictions can negatively affect our opportunities for growth or delay our ability to recognize revenue from the sale or installation of products in any such jurisdictions.

Public opinion can also exert a significant influence over the regulation of the gaming industry. A negative shift in the public's perception of gaming could affect future legislation in individual jurisdictions. Among other things, such a shift could cause jurisdictions to abandon proposals to legalize gaming, thereby limiting the number of new jurisdictions into which we could expand. Negative public perception could also lead to new restrictions on or the prohibition of gaming in jurisdictions in which we currently operate.

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

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

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

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

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

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

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

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

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

There has also been consolidation recently in the gaming industry among our competitors. Such consolidation could alter the competitive landscape of the industry by resulting in the formation of larger competitors with increased financial resources and altered cost structures, which may enable them to have more competitive pricing models and gain a larger market share of customers, as well as expanded product offerings and broader geographic scope of operations.

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

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

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

The gaming industry is characterized by dynamic customer demand and technological advances, both for land-based and online gaming products. As a result, we must continually introduce and successfully market new themes and technologies in order to remain competitive and effectively stimulate customer demand. The process of developing new products and systems is inherently complex and uncertain. It requires accurate anticipation of changing customer needs and end user preferences as well as emerging technological trends. If our competitors develop new game content and technologically innovative products and we fail to keep pace, our business could be adversely affected. To remain competitive, we invest resources towards our research and development efforts to introduce new and innovative games with dynamic features to attract new customers and retain existing customers. If we fail to accurately anticipate customer needs and end user preferences through the development of new products and technologies, we could lose business to our competitors, which would adversely affect our results of operations and financial position.

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

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

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

We operate in many countries outside of the US and in tribal jurisdictions with sovereign immunity which subjects us to certain inherent risks. A significant portion of our revenues is derived from our International business segment. In addition, certain aspects of our domestic business, such as our supply chain, may be impacted by events and conditions internationally. Developments such as noted below could adversely affect our financial condition and results of operations:

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

We may be unable to protect our IP.

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

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

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

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

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

In addition, intellectual property rights of others, including our competitors, may prevent us from taking advantage of innovative technologies by restricting our ability to develop these technologies ourselves, incorporate new technologies into our systems, or enter new markets created by these technologies, all of which may adversely affect our competitive position and results of operations.

Our online social gaming casino offering is conducted largely through Facebook and Apple's IOS platform, and our business and our growth prospects would suffer if we fail to maintain good relationships with Facebook and Apple, or if Facebook or Apple were to alter the terms of our relationship.

DoubleDown Casino®, which is our online social gaming casino offering, operates largely through Facebook and Apple's IOS platform. Consequently, our operating platform, growth prospects and future revenues from this online offering are dependent on our continued relationships with Facebook and Apple. While DoubleDown has historically maintained good relationships with Facebook and Apple, our online social gaming casino offering would suffer if we are unable to continue these relationships in the future.

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

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

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

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

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

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

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

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

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

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

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

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

In addition, we use social media platforms, such as Facebook, YouTube and Twitter, as marketing tools. These platforms allow individuals access to a broad audience of consumers and other interested persons. Negative commentary regarding us or the products we sell may be posted on social media platforms and similar devices at any time and may be adverse to our reputation or business. As laws and regulations rapidly evolve to govern the use of these platforms and mobile devices, the failure by us, our employees or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could adversely impact our business, financial condition and results of operations or subject us to fines or other penalties.

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

Any disruption in our network or telecommunications services, or those of third parties that we utilize in our operations, could affect our ability to operate our games or financial systems, which would result in reduced revenues and customer down time. Our network and databases of business and customer information, including intellectual property, trade secrets, and other proprietary business information and those of third parties we utilize, are susceptible to outages due to fire, floods, power loss, break-ins, cyber-attacks, network penetration, data privacy or security breaches, denial of service attacks, and similar events, including inadvertent dissemination of information due to increased use of social media. Despite the implementation by us and third parties we utilize of network security measures and data protection safeguards, including a disaster recovery strategy for back office systems, our servers and computer resources, and those of third parties we utilize, are vulnerable to viruses, malicious software, hacking, break-ins or theft, third-party security breaches, employee error or malfeasance, and other potential compromises. Disruptions from unauthorized access to or tampering with our computer systems, or those of third parties we utilize, in any such event could result in a wide range of negative outcomes, including devaluation of our intellectual property, increased expenditures on data security, and costly litigation, each of which could have a material adverse effect on our business, reputation, operating results and financial condition.

Any disruption in our network or telecommunications services could affect our ability to operate our games or financial systems, which would result in reduced revenues and customer down time. Our network and databases of business and customer information, including intellectual property, trade secrets, and other proprietary business information, are susceptible to outages due to fire, floods, power loss, break-ins, cyber-attacks, network penetration, data privacy or security breaches, denial of service attacks, and similar events, including inadvertent dissemination of information due to increased use of social media. Despite our implementation of network security measures and data protection safeguards, including a disaster recovery strategy for back office systems, our servers and computer resources are vulnerable to viruses, malicious software, hacking, break-ins or theft, third-party security breaches, employee error or malfeasance, and other potential compromises. Disruptions from unauthorized access to or tampering with our computer systems in any such event could result in a wide range of negative outcomes, including devaluation of our intellectual property, increased expenditures on data security, and costly litigation, adverse publicity or regulatory action, each of which could have a material adverse effect on our business, reputation, operating results and financial condition. In addition, sophisticated hardware and operating system software and applications that we procure from third parties may contain defects in design or manufacture that could unexpectedly interfere with our operations. The cost to alleviate security risks, defects in software and hardware and address any problems that occur could negatively impact our sales, distribution and other critical functions, as well as our financial results.

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

Our domestic credit facility subjects us to a number of financial covenants, including a minimum ratio of adjusted EBITDA to interest expense minus interest on jackpot liabilities and a maximum ratio of net funded debt to adjusted EBITDA. Our failure or inability to comply with these covenants will cause an event of default that, if not cured, could cause the entire outstanding borrowings under our domestic credit facility, 5.35% Bonds, 5.5% Bonds, 7.5% Bonds and Notes to become immediately due and payable. In addition, our interest rate under the domestic credit facility can vary based on our public credit rating or our net funded debt to adjusted EBITDA ratio. Each of these measures may be adversely impacted by unfavorable economic conditions. The domestic credit facility also includes restrictions that may limit our flexibility in planning for, or reacting to, changes in our business and the industry.

Our outstanding Notes subject us to additional risks.

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

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

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

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

We may not be able to generate sufficient cash flows to meet our debt service obligations.

Our ability to make payments on and to refinance our indebtedness, including the Notes, and to fund planned capital expenditures will depend on our operating performance, financial results and ability to generate cash from our operations. These variables, to a certain extent, are subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our business may not generate sufficient cash flow from operations and future sources of capital under our credit facilities or otherwise may not be available to us in an amount sufficient to enable us to pay our indebtedness, including the Notes, or to fund our other liquidity needs. The Notes mature on May 1, 2014, unless repurchased earlier or converted. Any default on our debt obligations would have a material adverse effect on our business, operating results and financial condition, including possible credit rating downgrades.

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

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

Our results of operations could be affected by natural events in the locations in which we or our customers or suppliers operate.

We, our customers, and our suppliers have operations in locations subject to natural occurrences such as severe weather and other geological events, including hurricanes, earthquakes, floods, or tsunamis that could disrupt operations. Any serious disruption at any of our facilities or the facilities of our customers or suppliers due to a natural disaster could have a material adverse effect on our revenues and increase our costs and expenses. If there is a natural disaster or other serious disruption at any of our facilities, it could impair our ability to adequately supply our customers, cause a significant disruption to our operations, cause us to incur significant costs to relocate or reestablish these functions and negatively impact our operating results. While we insure against certain business interruption risks, such insurance may not adequately compensate us for any losses incurred as a result of natural or other disasters. In addition, any natural disaster that results in a prolonged disruption to the operations of our customers or suppliers may adversely affect our business, results of operations or financial condition.

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New conflict minerals regulations may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

On August 22, 2012, the SEC adopted a new rule requiring disclosures of specific minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured, or contracted to be manufactured, by public companies. The new rule requires companies to verify and disclose whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. The first disclosure report is due on May 31, 2014, relating to the calendar year of 2013.

There will be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of this rule could adversely affect the sourcing, supply and pricing of materials used in our products. The new rule could affect the availability in sufficient quantities and at competitive prices of certain minerals used in the manufacture of our products, given that there may be only a limited number of ‘conflict-free’ minerals, which could result in increased material and component costs and additional costs associated with changes in our supply chain. We may also face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

Litigation costs and the outcome of litigation could have a material adverse effect on our business.

From time to time we may be subject to litigation claims through the ordinary course of our business operations regarding, but not limited to, employment matters, security of consumer and employee personal information, contractual relations with suppliers, marketing and infringement of trademarks and other intellectual property rights. Litigation to defend ourselves against claims by third parties, or to enforce any rights that we may have against third parties, may be necessary, which could result in substantial costs and diversion of our resources, causing a material adverse effect on our business, financial condition and results of operations.

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

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

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

Our share repurchase program could affect the price of our common stock and increase volatility.

Repurchases of our common stock pursuant to our stock repurchase program could affect our stock price and increase its volatility. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of common stock. Although our stock repurchase program is intended to enhance long-term shareholder value, short-term stock price fluctuations could reduce the program’s effectiveness.

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

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our properties consist primarily of facilities worldwide used for manufacturing, engineering, sales, corporate administration, customer service and technical support. We own our corporate headquarters in Las Vegas, Nevada, which serves as our primary sales and service facility. We also own a Reno, Nevada campus, which serves as our primary manufacturing, engineering and warehousing facility. Additional sales and service facilities worldwide are occupied under leases that expire at various times through 2023.

Square Footage Of Facilities At September 30, 2013

	Approximate Square Footage	
	Owned	Leased
(in thousands)		
North America (US and Canada)	1,840	400
International		
EMEA	146	104
LAC	-	46
APAC	15	215

We expect our current properties will be adequate for our near-term business needs and the productive capacity of our facilities is substantially utilized.

Item 3. Legal Proceedings

IGT has been named in and has brought lawsuits in the normal course of business. A description of certain of these matters is contained in Note 13 and incorporated herein by this reference.

Item 4. Mine Safety Disclosures

Not Applicable

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed and traded on the New York Stock Exchange under the symbol "IGT." As of November 25, 2013, there were approximately 1,863 record holders of IGT's common stock and the closing price was $17.16.

	Quarters			
	First	Second	Third	Fourth
2013				
Stock price - high	$14.70	$17.49	$18.81	$21.20
Stock price - low	12.37	13.58	15.64	16.55
Dividends declared	$0.07	$0.08	$0.09	$0.10
2012				
Stock price - high	$18.17	$18.10	$17.25	$16.07
Stock price - low	13.42	14.15	13.12	10.92
Dividends declared	$0.06	$0.06	$0.06	$0.06

In our 2014 first quarter, we declared a cash dividend of $0.11 per share, payable on January 3, 2014 to shareholders of record on December 20, 2013.

IGT transfer agent and registrar

Wells Fargo Shareowner Services
1110 Centre Pointe Curve, Suite 101
MAC N9173-010
Mendota Heights, MN 55120
(800) 468-9716
www.wellsfargo.com/contactshareownerservices

Share Repurchases

The purpose of our common stock repurchase plan is to increase shareholder value and to reduce outstanding share count dilution. On June 13, 2012, our Board of Directors authorized share repurchases of up to $1.0 billion with no expiration date specified. We may use open market or privately negotiated transactions, as well as Rule 10b5-1 trading plans, depending on market conditions and other factors. See Note 24 for a description of our $200.0 million ASR transaction executed in November 2013.

2013 Fourth Quarter	Total [(a)] Number of Shares Purchased	Average Price Paid Per Share ($0.00)	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Approximate Dollar Value of Shares Still Available for Purchase Under the Plan
June 30 - July 27, 2013	-	$ -	-	$ 519.1

July 28 - August 24, 2013	-	-	-	519.1
August 25 - September 28, 2013	5.3	20.55	5.3	$ 409.7
Total	5.3		5.3	

(a) Includes 7,200 of restricted shares or units tendered by employees at fair value at vesting for tax withholding obligations.

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Performance Graph

The following graph reflects the cumulative total return (change in stock price plus reinvested dividends) of a $100 investment in our common stock for five fiscal years ended September 30, 2013, relative to the Standard and Poor's 500 Composite Index and a customized peer group of four companies that includes:

- Bally Technologies, Inc.
- Scientific Games Corporation
- WMS Industries, Inc. (acquired by Scientific Games Corporation on October 18, 2013)
- SHFL entertainment, Inc.

The following graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Item 6. Selected Financial Data

The following selected financial highlights should be read in conjunction with Item 7, MDA, and Item 8, Financial Statements and Supplementary Data.

As of and for Years Ended September 30,	2013	2012	2011	2010	2009
Revenues	$2,341.6	$ 2,150.7	$ 1,957.0	$ 1,917.2	$ 2,018.8
Gross profit	1,344.4	1,237.6	1,138.4	1,087.3	1,113.6
Operating income	494.1	421.7	504.9	424.8	332.4
Income from continuing operations, before tax (1)	402.3	342.8	427.9	304.9	213.1
Income from continuing operations, net of tax	272.7	249.7	292.3	219.6	148.7
Discontinued operations, net of tax	-	(3.8)	(8.7)	(33.6)	(21.9)
Net income	272.7	245.9	283.6	186.0	126.8
Basic earnings per share					
Continuing operations	$1.04	$ 0.86	$ 0.98	$ 0.73	$ 0.50
Discontinued operations	$0.00	$ (0.01)	$ (0.03)	$ (0.11)	$ (0.07)
Net income	$1.04	$ 0.85	$ 0.95	$ 0.62	$ 0.43
Diluted earnings per share					
Continuing operations	$1.03	$ 0.86	$ 0.97	$ 0.73	$ 0.50
Discontinued operations	$0.00	$ (0.01)	$ (0.03)	$ (0.11)	$ (0.07)
Net income	$1.03	$ 0.85	$ 0.94	$ 0.62	$ 0.43
Weighted average shares outstanding					
Basic	262.6	288.8	298.2	296.3	293.8
Diluted	265.2	290.4	299.8	297.8	294.0
Cash dividends declared per share	$0.34	$ 0.24	$ 0.24	$ 0.24	$ 0.33
Net operating cash flows	$462.6	$ 446.5	$ 612.4	$ 591.0	$ 547.9
Net investing cash flows	(36.1)	(308.8)	(118.3)	(117.7)	(288.4)
Net financing cash flows	84.0	(392.6)	(190.8)	(462.1)	(381.2)
Capital expenditures	127.8	208.7	205.1	240.2	(257.4)
Cash used for share repurchases	190.5	475.2	50.1	-	-
Cash and short-term investment securities (2)	$809.1	$ 288.2	$ 552.0	$ 248.9	$ 247.4
Working capital	267.5	633.0	875.2	620.1	609.2
Total assets	4,612.8	4,285.1	4,154.4	4,007.0	4,328.1
Debt, net (current and non-current)	2,192.9	1,846.4	1,646.3	1,674.3	2,020.0
Jackpot liabilities (current and non-current)	425.0	481.0	508.4	570.9	588.1
Non-current liabilities	1,850.2	2,457.0	2,174.9	2,190.4	2,640.0
Total equity (3)	1,254.1	1,197.8	1,444.8	1,234.3	1,063.6

(1) 2012 (see Note 20), 2010 and 2009 were significantly impacted by impairment and restructuring charges.

2010 included impairment of $61.3 million ($38.4 million after tax) associated with our investments in Alabama.

2009 included a loss on other assets of $78.0 million ($48.8 million after tax) associated with Walker Digital IP, restructuring charges of $33.9 million ($21.2 million after tax), and losses of $15.4 million ($14.2 million after tax) associated with affiliate investments.

(2) Cash and short-term investments include restricted amounts. See Note 1.

(3) Equity was significantly reduced by shares repurchased in 2012.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following MDA is intended to enhance the reader's understanding of our operations and current business environment from the perspective of our company's management. MDA is provided as a supplement to, and should be read in conjunction with, the accompanying Item 1, Business and Item 8, Financial Statements and Notes.

Our MDA is organized into the following sections:

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

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

OVERVIEW

International Game Technology is a global gaming company specializing in the design, development, manufacture, and marketing of casino-style gaming equipment, systems technology, and game content across multiple platforms—land-based, online real-money and online social. We are a leading supplier of gaming entertainment products worldwide and provide a diverse offering of quality products and services at competitive prices, designed to enhance the gaming player experience.

We derive our revenues from the distribution of casino games, gaming equipment and systems technology for land-based and online (social and real-money) markets. Operating results reviewed by our CEO encompass all revenue sources within each geographical region. We currently view our business in two operating segments, North America and International, each incorporating all revenue categories—Gaming Operations, Product Sales, and Interactive.

We measure segment profit on the basis of operating income. Certain income and expenses are managed at the corporate level and not allocated to an operating segment. Other segment and financial information is contained in our BUSINESS SEGMENT RESULTS below and Note 19. Unless otherwise noted, prior year amounts throughout this report have been adjusted for operations discontinued during 2011, as further described in Note 22.

Consolidated Results

	Years Ended September 30,			Change			
	2013	2012	2011	13 vs 12		12 vs 11	
Revenues	$2,341.6	$2,150.7	$1,957.0	$190.9	9 %	$ 193.7	10 %
Operating income	$494.1	$421.7	$504.9	$72.4	17%	$ (83.2)	-16%
Income from continuing operations	$272.7	$249.7	$292.3	$23.0	9 %	$ (42.6)	-15%
EPS from continuing operations	$1.03	$0.86	$0.97	$0.17	20%	$ (0.11)	-11%

Results for our year ended September 30, 2013 above improved over the prior year, primarily due to an increase of $191.0 million or 12% in North America revenues, attributable to an increase of $133.0 million in interactive social gaming from DoubleDown acquired in late January 2012 and $111.6 million or 17% in product sales. These increases were partially offset by a decrease of $53.6 million or 6% in North America gaming operations.

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Operating income also improved because revenue growth outpaced increased operating expenses. Income and EPS from continuing operations was negatively impacted by a higher effective income tax rate primarily due to a prior year tax benefit of $44.7 million related to Entraction closures. EPS from continuing operations also benefitted from fewer shares outstanding due to share repurchases discussed further in Note 17. For a more in-depth analysis of our 2013 results, see CONSOLIDATED RESULTS directly following this OVERVIEW.

Business Update

Increased VLT demand from various government lotteries in Canada and gaming expansion in Illinois, as well as new openings in Ohio, contributed significantly to improved machine sales during 2013. VLT shipments into Canada were substantially completed in 2013. Worldwide economic uncertainty continues to impact the willingness of our customers to purchase electronic gaming machines at an increased pace. Additionally, market impediments have hampered sales in certain international regions. We remain committed to expanding our portfolio of localized content and continue to believe growth in the international markets will outpace North America in the long term.

In gaming operations, we also continue to be challenged by increasing competition that is investing heavily in this product line. Additionally, industry-wide gross gaming revenues remain challenged by lower discretionary spending influenced by global macroeconomic uncertainty. These challenges are most evident in the reduction of our gaming operations yields. We are addressing these challenges with added team resources in MegaJackpots®, an increased mix of franchise titles such as Wheel of Fortune®, social media marketing programs, and focused releases of innovative new game content. We also remain committed to disciplined capital deployment and attempting to offset some of the yield pressures through greater operational efficiency.

Technological advances in and the increasing popularity of wireless mobile technology, such as smart phones, tablets, and social networking, have led to growth in online gaming. Online games can appeal to a broader consumer demographic of players. With the acquisition of DoubleDown in January 2012, we established a leading position in interactive online casino-style social gaming, adding new distribution channels for IGT game content, and providing players access to our games across multiple platforms and devices. Our 2013 social gaming revenues increased 151% over last year, largely attributable to the introduction of IGT content to the DoubleDown Casino®. With the recent legalization of online real-money gaming in Nevada, New Jersey, and Delaware, we expect interactive online gaming to continue to be an important strategic part of our business and intend to enter and do business in those markets that offer attractive return characteristics and build on our existing capabilities.

DoubleDown

In January 2012, we acquired Seattle based Double Down Interactive LLC., developer and operator of the online social gaming DoubleDown Casino® found on Facebook. DoubleDown has a broad and expanding casino-style game portfolio, offering blackjack, slots, slot tournaments, video poker, and roulette to social gamers around the world. This strategic acquisition has established IGT's position in casino-style social gaming and strengthened our core business with added distribution channels for IGT game content. DoubleDown is presented as a component of North America interactive operations. See Note 21.

Strategic Objectives

We continue to partner with our customers to build stronger relationships and deliver innovative gaming products and services. For 2013, we focused on the following strategic objectives designed to improve our business and increase shareholder value:

- Propelling our game content across the broadest possible global network
- Reinforcing a leadership position in our core business

- Increasing revenues and profitability in international markets
- Returning capital to shareholders in a consistent, efficient manner

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We will continue to execute our strategy, adjusting it as opportunities arise and the industry and business evolves. As we enter our new fiscal year 2014, we are focused on three strategic objectives:

(1) Assembling the most compelling and highest performing game library available—serving both the operators and players
(2) Expanding and managing the broadest distribution network globally
(3) Maximizing value through the efficient operation of our business, the optimal generation of cash flow, and the responsible, dependable return of capital to shareholders

CONSOLIDATED RESULTS – A Year Over Year Comparative Analysis

	Years Ended September 30,			Change			
	2013	2012	2011	13 vs 12		12 vs 11	
Revenues	$2,341.6	$2,150.7	$1,957.0	$190.9	9 %	$193.7	10 %
Gross margin	57 %	58 %	58 %	(1)pp		- pp	
Operating income	$494.1	$421.7	$504.9	$72.4	17%	$(83.2)	-16%
Margin	21 %	20 %	26 %	1 pp		(6)pp	
Income from continuing operations	$272.7	$249.7	$292.3	$23.0	9 %	$(42.6)	-15%
Discontinued operations	-	(3.8)	(8.7)	3.8	*	4.9	*
Net income	$272.7	$245.9	$283.6	$26.8	11%	$(37.7)	-13%
EPS							
Continuing operations	$1.03	$0.86	$0.97	$0.17	20%	$(0.11)	-11%
Discontinued operations	-	(0.01)	$(0.03)	$0.01	*	$0.02	*
Net income	$1.03	$0.85	$0.94	$0.18	21%	$(0.09)	-10%

2013 Compared With 2012

Total revenues improved due to an increase of $191.0 million in North America revenues, attributable to an increase of $133.0 million in interactive, mostly from the growing social gaming revenues of DoubleDown acquired in late January 2012, and $111.6 million in product sales. These increases were partially offset by a decrease in North America gaming operations revenues of $53.6 million. Changes in foreign currency rates negatively impacted revenues by approximately $9.9 million. Total gross margin declined due to lower product sales margins, partially offset by improved margins in interactive and gaming operations.

Operating income and margin improved because revenue growth outpaced increased operating expenses discussed below under OPERATING EXPENSES. Income and EPS from continuing operations was negatively impacted by a higher effective income tax rate primarily due to a prior year tax benefit of $44.7 million related to Entraction closures as discussed below under INCOME TAX PROVISIONS. EPS additionally benefitted from fewer shares outstanding due to share repurchases discussed further in Note 17.

2012 Compared With 2011

Total revenues grew 10%, driven primarily by increases from interactive (up $107.3 million) and machine sales (up $95.4 million). Changes in foreign currency rates negatively impacted revenues by approximately $15.5 million.

Operating income decreased 16% primarily due to increased operating expenses of $150.0 million related to emerging interactive markets and technology, including additions from the acquisitions of DoubleDown and Entraction. See OPERATING EXPENSES below for additional information. Income from continuing operations decreased 15% for the same reasons operating income decreased and included a tax benefit of $44.7 million related to the Entraction closures.

Discontinued operations (See Note 22)

Due to a strategic realignment, our UK Barcrest Group was sold in 2011 for approximately $47.0 million and the resolution of contingent consideration over the next two years may result in additional gain or loss.
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GAMING OPERATIONS

	Years Ended September 30,			Change			
	2013	2012	2011	13 vs 12		12 vs 11	
Revenues	$991.4	$1,040.0	$1,036.5	$ (48.6)	-5%	$ 3.5	-
Gross margin	62 %	61 %	61 %	1 pp		- pp	
Installed base (units '000)	54.6	57.1	53.9	(2.5)	-4%	3.2	6 %
MegaJackpots® (premium brand)	25.1	27.1	27.8	(2.0)	-7%	(0.7)	-3 %
Lease (CDS, Racino, other)	29.5	30.0	26.1	(0.5)	-2%	3.9	15%
Yield (average revenue per unit per day - $0.00)	$48.74	$51.49	$53.34	$ (2.75)	-5%	$ (1.85)	-3 %

2013 Compared With 2012

Gaming operations revenues decreased primarily driven by lower yields, most significant in MegaJackpots®, as well as installed base decline. The installed base decrease was primarily from North America MegaJackpots® units, and to a lesser extent from International lease units. Gross margin improvement was primarily due to lower jackpot expense in correlation with lower WAP revenues and lower depreciation related to fewer machine builds. Yield decreased primarily due to lower performance, most significant in North America MegaJackpots® WAP games, and continued installed base shift into lower-yield lease units.

2012 Compared With 2011

Gaming operations revenues were essentially flat, with International revenue increases offset by North America decreases. Gross margin remained flat, as lower yield was offset by favorable jackpot expense and royalties. Installed base increased 6% due to lease additions partially offset by decreases in MegaJackpots® units. Yield decreased primarily due to lower performance and higher promotional discounting in MegaJackpots®, as well as an increasing mix of lower-yield stand-alone units.

PRODUCT SALES

	Years Ended September 30,			Change			
	2013	2012	2011	13 vs 12		12 vs 11	
Revenues	$1,085.2	$966.8	$883.9	$118.4	12 %	$82.9	9 %
Machines	755.5	653.5	558.1	102.0	16 %	95.4	17%
Non-machine [a]	329.7	313.3	325.8	16.4	5 %	(12.5)	-4 %
Gross margin	52 %	54 %	55 %	(2)pp		(1)pp	
Machine units recognized ('000) [1]	57.2	43.6	37.5	13.6	31 %	6.1	16%
Machine ASP ('000)	$13.2	$15.0	$14.9	$(1.8)	-12%	$0.1	1 %
Machine units shipped ('000) [2]	55.6	44.2	35.9	11.4	26 %	8.3	23%
New/expansion	13.6	12.9	11.4	0.7	5 %	1.5	13%
Replacement	42.0	31.3	24.5	10.7	34 %	6.8	28%

[a] non-machine revenue includes systems, license fees, parts/service/other
[1] correlates with revenues recognized; [2] includes deferred revenue units

2013 Compared With 2012

Product sales revenue grew primarily due to increased North America machines and systems sales. Machine units recognized increased primarily driven by 6,000 additional VLT replacement units in Canada, 4,400 new VLT units in

Illinois, and 4,600 poker replacement units sold under a multi-property corporate contract. Machine ASP decreased primarily due to promotional discounting and a higher mix of lower-priced VLT and poker units. Non-machine revenue increase was primarily due to an increase of $14.0 million in systems sales and higher IP license fees, primarily due to a patent royalty settlement of $5.0 million. Gross margin decreased primarily due to increased promotional discounting.

Deferred revenue decreased $23.1 million during 2013 to $37.4 million at September 30, 2013, primarily related to the completion of obligations under multi-element contracts. During 2013, we shipped 800 units for which revenues were deferred and recognized revenues for 2,400 units previously shipped, for a net decrease of 1,600 units in deferred revenue.

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2012 Compared With 2011

Product sales grew 9% primarily due to increased replacement machine units sold in North America and higher ASP. Increased machine revenues were partially offset by lower non-machine revenues (down 4%), where lower systems and parts sales (down $21.7 million collectively) were offset by higher license fee revenues (up $9.2 million). Gross margin decline was primarily due to higher international machine component and rework costs. The increase in North America replacement machine units was due in large part to the fulfillment of a large Canadian Lottery contract and significant lease units converted to for-sale. Consolidated ASP increased 1%, due to lower promotional discounts and a greater mix of newer MLD™ machines in North America.

Deferred revenue increased $1.4 million during 2012 to $60.5 million at September 30, 2011, primarily related to obligations under multi-element contracts. During 2012, we shipped 2,800 units for which revenues were deferred and recognized revenues for 2,100 units previously shipped, for a net increase of 700 units in deferred revenue.

INTERACTIVE

	Years Ended September 30,			Change			
	2013	2012	2011	13 vs 12		12 vs 11	
Revenues	$265.0	$143.9	$36.6	$121.1	84 %	$107.3	293%
Social gaming	218.5	87.0	-	131.5	151%	87.0	-
IGTi	46.5	56.9	36.6	(10.4)	-18 %	20.3	55 %
Gross margin	61 %	56 %	51 %	5 pp		5 pp	
DoubleDown average user metrics*							
DAU ('000)	1,636	1,372	-	264	19 %	*	*
MAU ('000)	6,141	5,097	-	1,044	20 %	*	*
Bookings per DAU ($0.00)	$0.37	$0.26	-	$0.11	42 %	*	*

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

2013 Compared With 2012

Interactive revenue grew primarily as a result of growth in our DoubleDown Casino®. Social gaming revenues continue to improve as a result of increases in both bookings per DAU and DAU. These improvements were driven primarily by the introduction of IGT content to the DoubleDown Casino® and overall growth in desktop and mobile platform applications.

IGTi revenues decreased $14.3 million related to the closures of certain European online turnkey and poker operations and $7.4 million due to the prior year VAT settlement. These decreases were partially offset by an increase of $11.3 million in online casino revenues, primarily due to a 36% increase in the number of IGT rgs® customers. Additionally, mobile applications generated 21% of IGTi online casino revenues compared to 10% in the prior year.

Gross margin improvement was primarily due to the favorable contribution from social gaming. Amortization in cost of sales for DoubleDown acquired developed technology totaled $9.2 million in 2013 and $5.0 million in 2012.

2012 Compared With 2011

Interactive revenue growth was primarily the result of business acquisitions, with DoubleDown in social gaming in late January 2012 and Entraction in late June 2011 in IGTi. Since acquisition, the social gaming revenues of DoubleDown have increased each quarter due to the combination of higher bookings per DAU (up 49%) and increased DAU (up 6%), largely driven by new IGT content and mobile platform introductions for the DoubleDown site.

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IGTi online casino operations contributed $9.6 million to revenue growth in 2012, primarily due to IGT rgs® customer expansion, new games released, and player adoption of IGT games, as well as a VAT settlement of $7.4 million. Entraction contributed $15.1 million to 2012 IGTi revenues. However, due to diminished returns largely related to regulatory challenges in Europe, we began efforts in late 2012 to consolidate our IGTi product development and customer service resources, exit Entraction online turnkey and poker operations by December 2012, and close or reduce certain facilities in Stockholm and Tallinn.

Interactive gross margin increased 10% primarily due to the favorable contribution from DoubleDown, partially offset by additional amortization of acquired intangibles of $5.8 million, as well as increased equipment depreciation and transaction costs.

OPERATING EXPENSES

	2013	2012	2011	Change 13 vs 12		12 vs 11	
Selling, general and administrative	$460.4	$410.4	$353.3	$(50.0)	-12%	$(57.1)	-16%
Research and development	235.0	217.0	194.7	(18.0)	-8%	(22.3)	-11%
Depreciation and amortization	77.4	76.9	69.7	(0.5)	-1%	(7.2)	-10%
Subtotal SG&A-R&D-D&A	772.8	704.3	617.7	(68.5)	-10%	(86.6)	
Percent of revenue	33%	33%	32%				
Contingent acquisition-related costs	73.9	69.1	-	(4.8)	-7%	(69.1)	-
Impairment and restructuring	3.6	42.5	15.8	38.9	*	(26.7)	*
Total operating expenses	$850.3	$815.9	$633.5	$(34.4)	-4%	$(182.4)	-29%

2013 Compared With 2012

SG&A expenses increased largely due to an increase of $34.5 million in advertising and promotion expenses, which included $27.1 million related to player marketing in correlation with growing social gaming revenues, as well as higher gaming show costs in part due to timing changes that caused the occurrence of two major annual shows to fall into our fiscal 2013. SG&A increases also included $7.7 million for proxy contest fees, $7.7 million in bad debt provisions mostly related to certain international customer receivables, and $2.4 million for a legal settlement, partially offset by prior year settlement charges of $3.1 million related to early cancellation of a distributor agreement. The remaining increase in SG&A and R&D expenses generally related to higher employee headcount.

Acquisition related charges noted in the table below increased $3.4 million primarily related to DoubleDown.

	2013	2012
Earn-out	$35.0	$27.5
Retention	38.9	41.6
Total contingent costs	73.9	69.1
Amortization of acquired intangibles	17.7	13.3
Professional fees	-	5.8
Total	$91.6	$88.2

Lower impairment and restructuring charges partially offset the increases in SG&A and R&D. Current year impairment included $1.3 million for a UK building held for sale and $2.3 million related to our Alabama notes receivable and associated property collateral. See Note 20 for additional information about our Alabama impairment.

2012 Compared With 2011

Operating expenses increased 29%, primarily due to additional investment in emerging interactive markets and technology. Operating expenses related to interactive initiatives, including additions from Entraction and DoubleDown, increased $150.0 million, of which acquisition related charges primarily from DoubleDown totaled $88.2 million, as noted in the table above.

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Impairment and restructuring charges for 2012 included $14.6 million related to Walker Digital patents, $12.8 million related to further decline in the value of our Alabama notes' collateral, and $15.1 million related to the reorganization of our IGTi operations involving the closure of Entraction services and facilities. See Note 19 for additional information about these charges. Other incremental operating costs in SG&A and R&D included settlement charges of $3.1 million related to the early termination of a distributor arrangement.

OTHER INCOME (EXPENSE)

	2013	2012	2011	Change 13 vs 12		12 vs 11	
Interest Income	$44.4	$45.3	$51.2	$(0.9)	-2 %	$(5.9)	-12 %
WAP investments	17.8	20.0	22.4	(2.2)	-11 %	(2.4)	-11 %
Receivables and investments	26.6	25.3	28.8	1.3	5 %	(3.5)	-12 %
Interest Expense	(123.4)	(122.2)	(130.8)	(1.2)	-1 %	8.6	7 %
WAP jackpot liabilities	(17.7)	(19.9)	(22.2)	2.2	11 %	2.3	10 %
Borrowings	(70.1)	(69.9)	(79.0)	(0.2)	-	9.1	12 %
Convertible debt equity discount	(35.6)	(32.4)	(29.6)	(3.2)	-10 %	(2.8)	-9 %
Other, including gain (loss)	(12.8)	(2.0)	2.6	(10.8)	-540%	(4.6)	-177%
Total other income (expense), net	$(91.8)	$(78.9)	$(77.0)	$(12.9)	-16 %	$(1.9)	-2 %

2013 Compared With 2012

The change in total other income (expense) was unfavorable primarily due to increased foreign currency losses of $6.2 million primarily from Latin America and Australia currencies and an additional fair value loss adjustment of $4.7 million on our interest rate swaps. Lower interest income and higher interest expense on debt also contributed to the unfavorable change.

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

2012 Compared With 2011

The unfavorable variance in total other income (expense) was primarily due to increased foreign currency losses and lower interest income, partially offset by higher investment gains and decreased interest expense on lower average borrowing rates. Interest income decreased on a lower-rate portfolio of receivables and investments. Foreign currency losses increased $8.8 million primarily from UK and Australia currency transactions. Other income in 2011 included $4.3 million of gain on the sale of our CLS equity investment.

INCOME TAX PROVISION

	2013	2012	2011	Change 13 vs 12	12 vs 11
Income tax provision	$129.6	$93.1	$135.6	$(36.5)	$42.5
Effective tax rate	32.2 %	27.2%	31.7 %	(5.0)pp	4.5 pp

Differences between our effective tax rate and the US federal statutory rate of 35% principally result from the geographical distribution of taxable income, differences between the book and tax treatment of certain permanent items, and changes in unrecognized tax benefits. See Note 14 for additional information about our tax provision.

2013 Compared With 2012

Although the 2013 effective tax rate on income from continuing operations was favorably impacted by the manufacturer’s deduction and the R&D tax credit, the 2012 effective tax rate reflected a significant tax benefit of $44.7 million related to Entraction closures, resulting in an unfavorable year-over-year change.

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2012 Compared With 2011

The 2012 effective tax rate on income from continuing operations was favorably impacted by a tax benefit of $44.7 million related to Entraction closures. In addition, the 2012 effective tax rate was negatively impacted by the expiration of the R&D tax credit and losses of $31.0 million in foreign jurisdictions for which there were no associated tax benefits.

BUSINESS SEGMENT RESULTS (See Note 19)

NORTH AMERICA SEGMENT RESULTS

	2013	2012	2011	Change 13 vs 12		12 vs 11	
Total Revenues	$1,835.1	$1,644.1	$1,480.3	$191.0	12%	$163.8	11 %
Gross Margin	58 %	58 %	58 %	- pp		- pp	
Operating Income	$487.9	$425.8	$476.6	$62.1	15%	$(50.8)	-11%
Margin	27 %	26 %	32 %	1 pp		(6)pp	

2013 Compared With 2012

North America revenue improvement was driven by increases in interactive of $133.0 million and product sales of $111.6 million, partially offset by a decline in gaming operations of $53.6 million. Total gross margin was comparable, as margin improvement in gaming operations and interactive was offset by margin decline in product sales.

Operating income and operating margin improved due to revenue growth outpacing higher operating expenses. The increase in operating expenses primarily related to additional expenses from DoubleDown of $55.3 million, including higher advertising of $27.1 million related to player marketing in correlation with increasing social gaming revenues and incremental acquisition-related charges of $3.4 million.

2012 Compared With 2011

North America revenues grew 11% primarily due to added contribution from DoubleDown's interactive social gaming business acquired in late January 2012 and increased replacement machines sales. Operating income decreased 11% due to increased operating costs, primarily due to additional expenses from DoubleDown. Operating expenses included acquisition related charges primarily related to DoubleDown of $82.4 million for contingent employee retention bonus and earn-out liability accruals and $13.3 million for the amortization of acquired intangibles.

NORTH AMERICA GAMING OPERATIONS

	2013	2012	2011	Change 13 vs 12		12 vs 11	
Revenues	$854.2	$907.8	$913.8	$ (53.6)	-6%	$ (6.0)	-1 %
Gross margin	61 %	60 %	59 %	1 pp		1 pp	
Installed base (units '000)	41.4	43.4	40.9	(2.0)	-5%	2.5	6 %
MegaJackpots® (premium brand)	21.8	23.8	23.9	(2.0)	-8%	(0.1)	-
Lease (CDS, racino, other)	19.6	19.6	17.0	-	-	2.6	15%
Yield (average revenue per unit per day - $0.00)	$55.35	$59.19	$61.44	$ (3.84)	-6%	$ (2.25)	-4 %

2013 Compared With 2012

North America gaming operations revenues decreased primarily driven by lower yields along with installed base decline, most significant in MegaJackpots®. The decrease in yield was primarily due to lower performance, most significant in MegaJackpots® WAP games, as well as a higher concentration of installed base in lower-yield units. Gross margin improvement was primarily due to lower jackpot expense and reduced depreciation associated with decreased machine builds.

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2012 Compared With 2011

North America gaming operations revenues decreased 1% primarily due to lower yield. Gross margin increased 2%, primarily due to lower jackpot expense and royalties. Installed base increased 6% due to expansion in lease operations, partially offset by decreases in MegaJackpots® units. Yield decreased 4% primarily due to lower performance and higher promotional discounting in MegaJackpots®, as well as an increasing mix of lower-yield stand-alone units.

NORTH AMERICA PRODUCT SALES

				Change			
	2013	2012	2011	13 vs 12		12 vs 11	
Revenues	$759.8	$648.2	$566.2	$111.6	17 %	$82.0	14%
Machines	519.4	421.3	324.7	98.1	23 %	96.6	30%
Non-machine (systems, parts, other)	240.4	226.9	241.5	13.5	6 %	(14.6)	-6 %
Gross margin	54 %	57 %	56 %	(3)pp		1 pp	
Machine units recognized ('000)	42.2	29.1	22.8	13.1	45 %	6.3	28%
Machine ASP ('000)	$12.3	$14.5	$14.2	$(2.2)	-15%	$0.3	2 %
Machine units shipped ('000)	41.7						