

INTERNATIONAL GAME TECHNOLOGY  
Form 10-Q/A  
August 03, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q/A

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

For the quarterly period ending: March 31, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-10684

INTERNATIONAL GAME TECHNOLOGY  
(Exact name of registrant as specified in charter)

Nevada 88-0173041  
(State of Incorporation) (IRS Employer Identification No.)

9295 Prototype Drive, Reno, Nevada 89511  
(Address of principal executive offices)

(775) 448-7777  
(Registrant's telephone number, including area code)

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

Yes  No   
- -----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                         | Outstanding at April 28, 2001 |
|-------------------------------|-------------------------------|
| Common Stock                  | -----                         |
| par value \$.000625 per share | 73,986,618                    |

# Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

## International Game Technology Table of Contents

|  | Page |
|--|------|
| Part I - Financial Information   |      |
| Item 1. Financial Statements:  |      |
| Condensed Consolidated Statements of Income -<br>Three and Six Months Ended March 31, 2001 and April 1, 2000.... | 4    |
| Condensed Consolidated Balance Sheets -<br>March 31, 2001 and September 30, 2000 .....                           | 5    |
| Condensed Consolidated Statements of Cash Flows -<br>Six Months Ended March 31, 2001 and April 1, 2000.....      | 7    |
| Notes to Condensed Consolidated Financial Statements.....  | 9    |
| Item 2. Management's Discussion and Analysis of Financial Condition<br>and Results of Operations.....            | 15   |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk.....  | 23   |
| Part II - Other Information  |      |
| Item 1. Legal Proceedings.....   | 24   |
| Item 2. Changes in Securities.....   | 24   |
| Item 3. Defaults Upon Senior Securities.....   | 24   |
| Item 4. Submission of Matters to a Vote of Security Holders.....   | 24   |
| Item 5. Other Information.....   | 24   |
| Item 6. Exhibits and Reports on Form 8-K.....  | 25   |
| Signature.....   | 26   |

### Part I - Financial Information

#### Item 1. Financial Statements

##### General

The following unaudited condensed consolidated financial statements were prepared by International Game Technology (referred throughout this document, together with its consolidated subsidiaries where appropriate, as IGT, Company, we, our, and us) and include all normal adjustments considered necessary to present fairly the financial position for the interim periods. These adjustments are of a normal recurring nature. These financial statements and notes are presented as permitted by the instructions to Form 10-Q and therefore do not contain certain information included in our audited consolidated financial statements and notes for the year ended September 30, 2000. Operating results for current periods do not necessarily indicate the results that may be expected for the fiscal year ending September 29, 2001.

You should read these financial statements along with the financial statements,

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

accounting policies and notes included in our Annual Report on Amended Form 10-K/A for the fiscal year ended September 30, 2000. We believe that the disclosures in this document are adequate to make the information presented not misleading. Certain amounts in the unaudited condensed consolidated financial statements presented for the prior year comparable periods have been reclassified to be consistent with the presentation used in the current fiscal periods. In this report and in each of our reports, as amended, beginning with our Report on Form 10-K for the year ended September 30, 2000, we have reclassified our presentation of earnings from unconsolidated joint venture operations. We previously reported earnings from unconsolidated joint ventures, net of expenses, as a component of gaming operations revenues. In each of our reports as amended, beginning with our Report on Form 10-K for the year ended September 30, 2000 and going forward, we will report the net results of our unconsolidated joint ventures as a separate component of operating income on our income statement under a separate caption titled Earnings of Unconsolidated Affiliates. This reclassification has no impact on operating income, net income, or earnings per share as reflected on our consolidated statements of income and no impact on our consolidated balance sheets and statements of cash flows.

The following are trademarks, service marks, and/or federally registered trademarks of International Game Technology or its wholly-owned subsidiaries: After Shock, All for One, Big Brother, Diamond Cinema, Dollars Deluxe, Double Diamond 2000, Dynamite, EZ Pay, EZ Play, Fabulous 50's, Five Play Draw Poker, Game King, High Rollers, IGT Gaming System, IGS, iGame, iGame Plus, Integrated Voucher System, IVS, King Kebab, Little Green Men, Megabucks, MegaJackpots, Monedin Joker, Multi-Denomination, Multi-Hand Poker, Neon Nights, Nickelmania, Nickels, Nickels Deluxe, Party Time, Pokermania, Popper King, Psycho Cash Beast Club, Quartermania, Quarters Deluxe, S2000, Revolution, S-Plus, Security Accounting Management System, SAMS, Slotopoly, Super Nickelmania, Super Vision, Texas Tea, Triple Play Draw Poker, Triple Play Poker, and Vision Series.

IGT designs, manufactures, produces, operates, uses, and/or otherwise has permission to exploit certain gaming machines utilizing materials under license from third-party licensors. More specifically, the games which have been mentioned in this filing and their related trademark and copyright ownership information are: "The Addams Family"(TM) is developed under agreement with Monaco Entertainment Corporation; "Elvis, Elvis Presley, and King of Rock `n' Roll" are registered trademarks of Elvis Presley Enterprises, Inc.; "Jeopardy!"(R) is a registered trademark of Jeopardy Productions, Inc.; "Wheel of Fortune"(R) is a registered trademark of Califon Productions, Inc.; "Regis' Cash Club" is a game developed in conjunction with Philbin Enterprises; "\$1,000,000 Pyramid "(TM) is a trademark of CPT Holdings, Inc.; "I Dream of Jeannie" (TM) is a trademark of CPT Holdings, Inc.; "The Three Stooges"(R), the characters, names and all related indicia are trademarks of C3 Entertainment, Inc.; " The Honeymooners"(TM) is a trademark used under license; "Let's Make A Deal"(R) is a trademark of Let's Make a Deal, is registered in the US and is pending elsewhere, and is used under license; "Beverly Hillbillies" (TM) is a trademark of CBS Worldwide Inc.; "Lifestyles of the Rich and Famous"(TM) is a trademark of Rysher Entertainment, Inc.; "The Munsters" is a trademark of Universal Studios, licensed by Universal Studios Licensing, Inc.; "American Bandstand"(R) is a trademark of Dick Clark Productions, Inc.; "Wheel of Gold" and "Totem Pole" are federally registered trademarks of Anchor Gaming.

Condensed Consolidated Statements of Income

Three Months Ended

Six

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

|   | March 31,<br>2001 | April 1,<br>2000 | March 31,<br>2001 |
|---|-------------------|------------------|-------------------|
| (Amounts in thousands, except per share amounts)            |                   |                  |                   |
| <b>Revenues</b>   |                   |                  |                   |
| Product sales   | \$ 221,158        | \$ 118,656       | \$ 413,508        |
| Gaming operations   | 91,587            | 74,628           | 169,666           |
|   | -----             | -----            | -----             |
| Total revenues  | 312,745           | 193,284          | 583,174           |
|   | -----             | -----            | -----             |
| <b>Costs and Expenses</b>                                   |                   |                  |                   |
| Cost of product sales                                       | 134,700           | 75,283           | 249,903           |
| Cost of gaming operations                                   | 41,304            | 32,861           | 75,360            |
| Selling, general and administrative                         | 47,247            | 35,740           | 86,845            |
| Depreciation and amortization                               | 4,676             | 5,252            | 9,545             |
| Research and development                                    | 15,478            | 13,318           | 29,564            |
| Provision for bad debts                                     | 4,553             | 1,436            | 10,305            |
| Impairment of assets and restructuring                      | (600)             | -                | (1,100)           |
|   | -----             | -----            | -----             |
| Total costs and expenses                                    | 247,358           | 163,890          | 460,422           |
|   | -----             | -----            | -----             |
| Earnings of Unconsolidated Affiliates                       | 34,163            | 24,769           | 65,465            |
|   | -----             | -----            | -----             |
| Income from Operations                                      | 99,550            | 54,163           | 188,217           |
|   | -----             | -----            | -----             |
| <b>Other Income (Expense)</b>                               |                   |                  |                   |
| Interest income   | 12,072            | 13,001           | 24,417            |
| Interest expense  | (25,379)          | (25,621)         | (50,484)          |
| Gain (loss) on the sale of assets                           | 356               | (762)            | 465               |
| Other   | (1,590)           | (2,094)          | (1,113)           |
|   | -----             | -----            | -----             |
| Other income (expense), net                                 | (14,541)          | (15,476)         | (26,715)          |
|   | -----             | -----            | -----             |
| Income Before Income Taxes                                  | 85,009            | 38,687           | 161,502           |
| Provision for Income Taxes                                  | 31,453            | 13,927           | 59,755            |
|   | -----             | -----            | -----             |
| Net Income  | \$ 53,556         | \$ 24,760        | \$ 101,747        |
|   | =====             | =====            | =====             |
| Basic Earnings Per Share                                    | \$ 0.73           | \$ 0.33          | \$ 1.39           |
|   | =====             | =====            | =====             |
| Diluted Earnings Per Share                                  | \$ 0.70           | \$ 0.33          | \$ 1.34           |
|   | =====             | =====            | =====             |
| Weighted Average Common Shares Outstanding                  | 73,512            | 75,247           | 73,136            |
| Weighted Average Common and Potential<br>Shares Outstanding | 76,414            | 76,048           | 76,009            |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

Condensed Consolidated Balance Sheets

|   | March 31,<br>2001 | September 30,<br>2000 |
|---|-------------------|-----------------------|
| -----   |                   |                       |
| (Dollars in thousands)  |                   |                       |
| Assets  |                   |                       |
| Current assets  |                   |                       |
| Cash and cash equivalents   | \$ 214,773        | \$ 244,907            |
| Investment securities at market value   | 13,357            | 21,473                |
| Accounts receivable, net of allowances for doubtful accounts of \$17,868 and \$13,831 | 248,152           | 219,948               |
| Current maturities of long-term notes and contracts receivable, net of allowances     | 91,608            | 76,320                |
| Inventories, net of allowances for obsolescence of \$29,100 and \$24,304:             |                   |                       |
| Raw materials   | 105,715           | 98,081                |
| Work-in-process   | 4,117             | 4,593                 |
| Finished goods  | 76,404            | 44,315                |
|   | -----             | -----                 |
| Total inventories   | 186,236           | 146,989               |
|   | -----             | -----                 |
| Investments to fund liabilities to jackpot winners                                    | 28,481            | 27,939                |
| Deferred income taxes   | 32,969            | 29,086                |
| Prepaid expenses and other  | 59,862            | 47,564                |
|   | -----             | -----                 |
| Total Current Assets  | 875,438           | 814,226               |
|   | -----             | -----                 |
| Long-term notes and contracts receivable, net of allowances and current maturities    | 94,763            | 76,888                |
|   | -----             | -----                 |
| Property, plant and equipment, at cost  |                   |                       |
| Land  | 19,869            | 19,889                |
| Buildings   | 75,940            | 75,891                |
| Gaming operations equipment   | 106,376           | 87,918                |
| Manufacturing machinery and equipment   | 125,625           | 121,512               |
| Leasehold improvements  | 4,871             | 4,996                 |
|   | -----             | -----                 |
| Total   | 332,681           | 310,206               |
| Less accumulated depreciation and amortization  | (153,143)         | (143,297)             |
|   | -----             | -----                 |
| Property, plant and equipment, net  | 179,538           | 166,909               |
|   | -----             | -----                 |
| Investments to fund liabilities to jackpot winners                                    | 231,471           | 229,726               |
| Deferred income taxes   | 124,595           | 97,670                |
| Intangible assets   | 174,026           | 143,738               |
| Other assets  | 111,734           | 94,559                |
|   | -----             | -----                 |
| Total Assets  | \$ 1,791,565      | \$ 1,623,716          |
|   | =====             | =====                 |

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

The accompanying notes are an integral part of these condensed consolidated financial statements.

### Condensed Consolidated Balance Sheets

|  | March 31,<br>2001 | September 30<br>2000 |
|--|-------------------|----------------------|
| (Dollars in thousands)   |                   |                      |
| Liabilities and Stockholders' Equity   |                   |                      |
| Current liabilities  |                   |                      |
| Current maturities of long-term notes payable  | \$ 4,618          | \$ 4,621             |
| Accounts payable   | 71,339            | 76,387               |
| Jackpot liabilities  | 75,118            | 55,942               |
| Accrued employee benefit plan liabilities  | 22,541            | 31,425               |
| Accrued interest   | 31,257            | 31,369               |
| Other accrued liabilities  | 86,268            | 59,249               |
| Total Current Liabilities  | 291,141           | 258,993              |
| Long-term notes payable and capital lease obligations,<br>net of current maturities                            | 992,078           | 991,507              |
| Long-term jackpot liabilities  | 256,558           | 267,985              |
| Other liabilities  | 18,143            | 8,646                |
| Total Liabilities  | 1,557,920         | 1,527,131            |
| Commitments and contingencies  | -                 | -                    |
| Stockholders' equity   |                   |                      |
| Common stock, \$.000625 par value; 320,000,000 shares<br>authorized; 154,932,744 and 153,739,686 shares issued | 97                | 96                   |
| Additional paid-in capital   | 312,785           | 278,825              |
| Retained earnings  | 1,144,927         | 1,043,184            |
| Treasury stock; 81,175,767 and 81,170,767 shares, at cost  | (1,215,707)       | (1,215,707)          |
| Accumulated other comprehensive loss   | (8,457)           | (9,813)              |
| Total Stockholders' Equity   | 233,645           | 96,585               |
| Total Liabilities and Stockholders' Equity   | \$ 1,791,565      | \$ 1,623,716         |

The accompanying notes are an integral part of these condensed consolidated financial statements.

### Condensed Consolidated Statements of Cash Flows

Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

|   | Six Months Ended  |             |
|---|-------------------|-------------|
|   | March 31,<br>2001 | April<br>20 |
| -----   |                   |             |
| (Dollars in thousands)  |                   |             |
| Cash Flows from Operating Activities  |                   |             |
| Net income  | \$ 101,747        | \$ 67       |
| -----   |                   |             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |             |
| Depreciation and amortization   | 27,674            | 29          |
| Amortization of discounts and deferred offering costs                             | 1,304             | 1           |
| Provision for bad debts   | 10,305            | 3           |
| Provision for inventory obsolescence  | 12,464            | 9           |
| Gain (loss) on investment securities and fixed assets                             | (465)             |             |
| Common stock awards   | 1,140             |             |
| (Increase) decrease in assets:  |                   |             |
| Receivables   | (46,417)          | 45          |
| Inventories   | (79,776)          | (21)        |
| Prepaid expenses and other  | (12,630)          | (17)        |
| Other assets  | (16,261)          | (7)         |
| Net accrued and deferred income taxes, net of tax benefit of employee stock plans | 3,826             | 1           |
| Decrease in accounts payable and accrued liabilities                              | (2,165)           | (15)        |
| Impairment of assets and restructuring charges (recoveries)                       | (1,100)           | 1           |
| Earnings of unconsolidated affiliates (in excess of) less than distributions      | 735               | (10)        |
| Other   | (4)               |             |
|   | -----             | -----       |
| Total adjustments   | (101,370)         | 20          |
|   | -----             | -----       |
| Net cash provided by operating activities   | 377               | 87          |
| -----   |                   |             |
| Cash Flows from Investing Activities  |                   |             |
| Investment in property, plant and equipment                                       | (12,243)          | (5)         |
| Proceeds from sale of property, plant and equipment                               | 729               |             |
| Purchase of investment securities   | -                 | (9)         |
| Proceeds from sale of investment securities                                       | 12,379            |             |
| Proceeds from investments to fund liabilities to jackpot winners                  | 12,849            | 12          |
| Purchase of investments to fund liabilities to jackpot winners                    | (15,129)          | (11)        |
| Cash advanced on loans receivable   | (23,541)          | (18)        |
| Cash received on loans receivable   | 8,668             | 1           |
| Proceeds from sale of other assets  | -                 | 41          |
| Investment in unconsolidated affiliates   | (80)              |             |
| Acquisition of businesses   | (31,177)          |             |
|   | -----             | -----       |
| Net cash provided by (used in) investing activities                               | (47,545)          | 10          |
| -----   |                   |             |

The accompanying notes are an integral part of these condensed consolidated financial statements.

# Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

## Condensed Consolidated Statements of Cash Flows

|  | Six Months Ended  |                  |
|--|-------------------|------------------|
|  | March 31,<br>2001 | April 1,<br>2000 |
| (Dollars in thousands)                                       |                   |                  |
| Cash Flows from Financing Activities                         |                   |                  |
| Principal payments on debt                                   | (17,987)          | (3,81)           |
| Proceeds from long-term debt                                 | 4,335             | 2,44             |
| Payments on jackpot liabilities                              | (35,341)          | (61,52)          |
| Collections from systems to fund jackpot liabilities         | 43,499            | 43,90            |
| Proceeds from employee stock plans                           | 19,495            | 4,56             |
| Purchases of treasury stock                                  | -                 | (318,46)         |
| Net cash provided by (used in) financing activities          | 14,001            | (332,88)         |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 3,033             | 85               |
| Net Decrease in Cash and Cash Equivalents                    | (30,134)          | (233,23)         |
| Cash and Cash Equivalents at:                                |                   |                  |
| Beginning of Period  | 244,907           | 426,34           |
| End of Period  | \$ 214,773        | \$ 193,10        |

The accompanying notes are an integral part of these condensed consolidated financial statements.

### Notes to Condensed Consolidated Financial Statements

#### 1. Notes and Contracts Receivable

The following allowances for doubtful notes and contracts were netted against current and long-term maturities:

|                        | March 31,<br>2001 | September 30,<br>2000 |
|------------------------|-------------------|-----------------------|
| (Dollars in thousands) |                   |                       |
| Current                | \$ 17,084         | \$ 14,607             |
| Long-term              | 4,590             | 3,426                 |
|                        | \$ 21,674         | \$ 18,033             |

#### 2. Concentrations of Credit Risk

The financial instruments that potentially subject IGT to concentrations of



## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

credit risk consist principally of cash and cash equivalents and accounts, contracts, and notes receivable. IGT maintains cash and cash equivalents with various financial institutions in amounts which, at times, may be in excess of the FDIC insurance limits.

Product sales and the resulting receivables are concentrated in specific legalized gaming regions. We also distribute a portion of our products through third party distributors resulting in significant distributor receivables. Accounts, contracts, and notes receivable by region as a percentage of total receivables at March 31, 2001 were as follows:

|   |       |
|---|-------|
| Domestic Region                                 |       |
| Native American casinos                         | 45%   |
| Nevada  | 24%   |
| Atlantic City (distributor and other)           | 6%    |
| Riverboats (greater Mississippi River area)     | 3%    |
| Other US regions (individually less than 3%)    | 6%    |
|   | ----- |
| Total domestic                                  | 84%   |
|   | ----- |
| International Region                            |       |
| Europe  | 6%    |
| Latin America                                   | 5%    |
| Australia                                       | 4%    |
| Other international (individually less than 3%) | 1%    |
|   | ----- |
| Total international                             | 16%   |
|   | ----- |
| Total   | 100%  |
|   | ===== |

### Notes to Condensed Consolidated Financial Statements

#### 3 Intangible Assets

Intangible assets consist of the following:

|   | March 31,<br>2001 | September 30,<br>2000 |
|---|-------------------|-----------------------|
| -----                                   |                   |                       |
| (Dollars in thousands)                  |                   |                       |
| Intellectual property                   | \$ 35,312         | \$ 1,650              |
| Excess of cost over net assets acquired | 147,163           | 148,631               |
|   | -----             | -----                 |
|   | 182,475           | 150,281               |
| Less accumulated amortization           | (8,449)           | (6,543)               |
|   | -----             | -----                 |
|   | \$ 174,026        | \$ 143,738            |
|   | =====             | =====                 |

#### 4. Impairment of Assets and Restructuring Costs

##### IGT -Australia

In the fourth quarter of fiscal 1999, given the unfavorable operating results, poor product performance, loss of customer confidence and market share,

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

personnel turnover and changes in the regulatory environment in Australia, we determined it necessary to re-evaluate the recoverability of the identifiable intangible assets and goodwill recorded in connection with IGT-Australia's March 1998 acquisition of Olympic Amusements Pty. Ltd. As a result of our review, we determined that the total unamortized balance of the identifiable intangible assets and goodwill was impaired and recorded a charge of \$86.8 million. In an effort to return IGT-Australia to a profitable operation, we also developed a restructuring plan. In connection with the plan, in the fourth quarter of fiscal 1999 we recorded a total of \$6.0 million in restructuring costs, composed of \$4.0 million for inventory obsolescence and \$2.0 million for asset and facility redundancy costs. During fiscal 2000, we recorded additional restructuring charges of \$1.9 million related to employee terminations. As of December 30, 2000 the restructuring plan for IGT-Australia was substantially complete. No additional charges were recorded in fiscal 2001. While we have been successful in returning IGT-Australia to profitability, we operate in a highly competitive and stringent regulatory environment.

### IGT-Brazil

In the fourth quarter of fiscal 1999, the government in Brazil rescinded the law allowing gaming devices in bingo halls throughout this market. At that time, we recorded impairment charges of \$5.3 million relating to our assessment of the recoverability of our inventories and receivables in Brazil. Payments collected for receivables previously considered fully impaired totaled \$1.1 million in the half of fiscal 2001 and \$1.9 million during all of fiscal 2000.

### Notes to Condensed Consolidated Financial Statements

#### 5. Earnings Per Share

The following table shows the reconciliation of basic earnings per share (EPS) to diluted EPS:

|   | Three Months Ended |                    | Six Months          |
|---|--------------------|--------------------|---------------------|
|   | March 31,<br>2001  | April 1,<br>2000   | March 31,<br>2001   |
| (Amounts in thousand, except per share amounts)   |                    |                    |                     |
| Net income  | \$ 53,556<br>===== | \$ 24,760<br>===== | \$ 101,747<br>===== |
| Weighted average common shares outstanding  | 73,512             | 75,247             | 73,136              |
| Dilutive effect of stock options outstanding  | 2,902              | 801                | 2,873               |
|   | 76,414             | 76,048             | 76,009              |
|   | =====              | =====              | =====               |
| Basic earnings per share  | \$ 0.73            | \$ 0.33            | \$ 1.39             |
| Diluted earnings per share  | \$ 0.70            | \$ 0.33            | \$ 1.34             |
| Number of common shares excluded from<br>diluted EPS because option exercise price<br>was greater than average market price | 35                 | 862                | 92                  |

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

### 6. Income Taxes

Our provision for income taxes is based on estimated effective annual income tax rates. The provision differs from income taxes currently payable because certain items of income and expense are recognized in different periods for financial statement and tax return purposes.

### 7. Comprehensive Income

Items of other comprehensive income include cumulative foreign currency translation adjustments and net unrealized gains and losses on investment securities. Our total comprehensive income is as follows:

|  | Three Months Ended |                  | Six Months Ended  |
|--|--------------------|------------------|-------------------|
|  | March 31,<br>2001  | April 1,<br>2000 | March 31,<br>2001 |
| (Dollars in thousands)                   |                    |                  |                   |
| Net income                               | \$ 53,556          | \$ 24,760        | \$ 101,747        |
| Net change in other comprehensive income | (1,440)            | (1,304)          | 1,356             |
| Comprehensive income                     | \$ 52,116          | \$ 23,456        | \$ 103,103        |

### 8. Supplemental Cash Flows Information

Certain noncash investing and financing activities are not reflected in the consolidated statements of cash flows.

We manufacture gaming machines which are used on our proprietary systems and are leased to customers under operating leases. Transfers between inventory and fixed assets resulted in an increase to property, plant and equipment of \$24.4 million during the current period and \$5.0 million during the comparable prior year period.

The tax benefit of stock options and the employee stock purchase plan totaled \$13.3 million for the six months ended March 31, 2001 and \$400,000 during the year earlier period.

#### Notes to Condensed Consolidated Financial Statements

Payments of interest were \$49.6 million for the first six months of fiscal 2001 and \$49.2 million for the first six months of fiscal 2000. Payments for income taxes were \$57.8 million for the six months ended March 31, 2001 and \$59.0 million for the same period last year.

During fiscal 2000, notes receivable increased by \$3.9 million as the result of converting our investment in Access Systems Pty., Ltd. from an equity to a debt instrument.

### 9. Contingencies

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

IGT has been named in and has brought lawsuits in the normal course of business. We do not expect the outcome of these suits, including the lawsuits described below, to have a material adverse effect on our financial position or results of future operations.

### Poulos

Along with a number of other public gaming corporations, IGT is a defendant in three class action lawsuits: one filed in the United States District Court of Nevada, Southern Division, entitled Larry Schreier v. Caesar's World, Inc., et al, and two filed in the United States District Court of Florida, Orlando Division, entitled Poulos v. Caesar's World, Inc., et al. and Ahern v. Caesar's World, Inc., et al., which have been consolidated into a single action. The Court granted the defendants' motion to transfer venue of the consolidated action to Las Vegas. The actions allege that the defendants have engaged in fraudulent and misleading conduct by inducing people to play video poker machines and electronic slot machines, based on false beliefs concerning how the machines operate and the extent to which there is an opportunity to win on a given play. The amended complaint alleges that the defendants' acts constitute violations of the Racketeer Influenced and Corrupt Organizations Act, and also give rise to claims for common law fraud and unjust enrichment, and seeks compensatory, special, consequential, incidental and punitive damages of several billion dollars. In December 1997, the Court denied the motions that would have dismissed the Consolidated Amended Complaint or that would have stayed the action pending Nevada gaming regulatory action. The defendants filed their consolidated answer to the Consolidated Amended Complaint on February 11, 1998. At this time, motions concerning class certification are pending before the Court.

### Acres

In February 1999, the Spin for Cash Wide Area Progressive Joint Venture (Joint Venture), to which IGT and Anchor Gaming, Inc. (Anchor) are partners, and Anchor filed an action in US District Court, District of Nevada against Acres Gaming, Inc. (Acres). IGT is not a party to this action. The complaint alleges, among other things, infringement of certain secondary event patents owned by Anchor and licensed to the Joint Venture. In April 1999, Acres responded by filing an answer and counterclaim against the Joint Venture and Anchor. In addition, in April 1999, Acres filed an action in Oregon state circuit court against the Joint Venture and Anchor alleging wrongful use of Acres' intellectual property. The Oregon state circuit court action has been removed to the US District Court, District of Oregon, and has been stayed pending the outcome of the Nevada actions.

## Notes to Condensed Consolidated Financial Statements

### 10. Business Segments

IGT operates principally in two lines of business: the development, manufacturing, marketing and distribution of gaming products, referred to as "product sales", and the development, marketing and operation of wide-area progressive systems and gaming equipment leasing, referred to as "proprietary gaming". The proprietary gaming segment includes our wholly-owned gaming operations and our unconsolidated joint venture activities reported as earnings of unconsolidated affiliates. Gaming operations and joint venture activities are viewed as a single business segment because the nature of the products in the joint ventures are the same as the products in our wholly-owned gaming operations. The same management group monitors all activities of the proprietary gaming segment. The joint venture is an integral part of our proprietary gaming segment.

There have been no material changes in the basis of measuring segment profit or

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

in the amount of identifiable assets for any operating segment since our last annual report.

The table below presents information as to our operations by these lines of business as of:

|  | Three Months Ended |                  | Six Months        |
|--|--------------------|------------------|-------------------|
|  | March 31,<br>2001  | April 1,<br>2000 | March 31,<br>2001 |
| (Dollars in thousands)                     |                    |                  |                   |
| Revenues                                   |                    |                  |                   |
| Product sales                              | \$ 221,158         | \$ 118,656       | \$ 413,508        |
| Proprietary gaming                         |                    |                  |                   |
| Gaming operations                          | 91,587             | 74,628           | 169,666           |
| Earnings of unconsolidated affiliates      | 34,163             | 24,769           | 65,465            |
|  | -----              | -----            | -----             |
| Total proprietary gaming                   | 125,750            | 99,397           | 235,131           |
|  | -----              | -----            | -----             |
| Total                                      | 346,908            | 218,053          | 648,639           |
| Less earnings of unconsolidated affiliates | (34,163)           | (24,769)         | (65,465)          |
|  | -----              | -----            | -----             |
| Total revenues                             | \$ 312,745         | \$ 193,284       | \$ 538,174        |
| Operating Profit                           |                    |                  |                   |
| Product sales                              | \$ 42,268          | \$ 14,316        | \$ 80,973         |
| Proprietary gaming                         |                    |                  |                   |
| Gaming operations                          | 34,337             | 23,861           | 63,857            |
| Earnings of unconsolidated affiliates      | 27,986             | 19,062           | 53,716            |
|  | -----              | -----            | -----             |
| Total proprietary gaming                   | 62,323             | 42,923           | 117,573           |
|  | -----              | -----            | -----             |
| Total                                      | 104,591            | 57,239           | 198,546           |
| Other non-allocated expense                | (19,582)           | (18,552)         | (37,044)          |
|  | -----              | -----            | -----             |
| Income Before Income Taxes                 | \$ 85,009          | \$ 38,687        | \$ 161,502        |

### 11. Acquisitions

In March 2001, we completed the purchase of Silicon Gaming, Inc. (Silicon). Silicon, previously headquartered in Palo Alto, California, designs and manufactures a full line of innovative wagering products and holds an extensive library of game applications. Simultaneous to our purchase, Silicon sold all but 4.9% of its shares in its subsidiary, WagerWorks, Inc. The purchase method of accounting for business combinations was applied to this acquisition. The purchase price of \$34.0 million was allocated to cash of \$2.8 million and net assets of \$31.2 million based on the estimated fair values of tangible and intangible assets and liabilities at the date of

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

### Notes to Condensed Consolidated Financial Statements

acquisition. There was no excess of the purchase price over the net assets acquired. The acquisition was funded with cash on hand. Subsequent to the acquisition, we paid off Silicon's long term debt of \$13.4 million. Results of Silicon subsequent to the closing of the acquisition are included in the results of operations. Intangible assets acquired from Silicon consist primarily of patents valued at \$33.7 million to be amortized over their useful lives of 15 to 17 years.

#### 12. Derivatives and Hedging Activities

IGT adopted Statement of Financial Accounting Standard No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," on October 1, 2000. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

During the six months ended March 31, 2001, IGT entered into forward exchange contracts to hedge our net exposure, by currency, related to the monetary assets and liabilities of our operations denominated in non-functional currency. These forward exchange contracts were not designated as hedging instruments under SFAS 133, and gains and losses were recognized in current earnings.

The adoption of SFAS 133 did not have a material impact on our financial condition or results of operations.

#### 13. Reclassifications

Certain amounts in the unaudited condensed consolidated financial statements presented for the prior year comparable periods have been reclassified to be consistent with the presentation used in the current fiscal periods. In this report and in each of our reports, as amended, beginning with our Report on Form 10-K for the year ended September 30, 2000, we have reclassified our presentation of earnings from unconsolidated joint venture operations. We previously reported earnings from unconsolidated joint ventures, net of expenses, as a component of gaming operations revenues. In each of our reports as amended, beginning with our Report on Form 10-K for the year ended September 30, 2000 and going forward, we will report the net results of our unconsolidated joint ventures as a separate component of operating income on our income statement under a separate caption titled Earnings of Unconsolidated Affiliates.

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

##### Results of Operations

Three Months Ended March 31, 2001 Compared to the Three Months Ended April 1, 2000

Net income for the current quarter grew to a new quarterly record of \$53.6 million or \$0.70 per diluted share compared to net income before one-time items in the prior year quarter of \$25.7 million or \$0.34 per diluted share. The prior year net income of \$24.8 million or \$0.33 per diluted share included a loss of \$1.4 million (\$900,000, net of tax) on the sale of the gaming systems business unit previously purchased as a part of the acquisition of Olympic Amusements Pty. Limited in March 1998.

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

### Operating Income

Operating income grew 84% to \$99.6 million or 32% of revenues for the quarter just ended compared to \$54.2 million or 28% of revenues in the second quarter of fiscal 2000. This improvement was due to markedly higher volumes and improved operating efficiencies, partially offset by higher operating expenses, as discussed below.

### Revenue, Gross Profit Margins and Earnings of Unconsolidated Affiliates

Total revenues for the second quarter of fiscal 2001 grew to \$312.7 million compared to \$193.3 million in the second quarter of fiscal 2000, reflecting an 86% increase in product sales revenue and a 23% increase in game operations revenue. Domestic revenues experienced significant improvement, increasing by 85% over the same quarter one year ago. Gross profit on total revenues for the current quarter increased 61% to \$136.7 million compared to \$85.1 million for the prior year quarter. This positive movement was attributable to increased profitability in both product sales and gaming operations.

Worldwide, IGT shipped 30,400 gaming machines for product sales of \$221.2 million during the current quarter versus 22,700 machines and \$118.7 million in the same quarter last year. Domestic shipments increased 117% to 16,500 units for the current quarter from 7,600 units in the year earlier quarter. This increase is due to strong replacement demand and continued growth in the Native American markets, especially California. Sales to Native American markets increased to 7,700 units in the current quarter compared to 1,700 units in the year earlier quarter. The current quarter included 5,700 machines shipped to various Native American venues in California. Replacement demand is driven by an aging installed base of gaming machines, the popularity of IGT's new video reel game offerings, and the appeal of the new ticket-in/ticket-out voucher technology, which offers an alternative payout and vouchering solution to casino operators.

International shipments during the current quarter totaled 13,800 or 45% of total units compared to 15,100 units in the comparable prior year quarter. IGT-Australia continued its recent improved performance shipping 2,100 machines in the current quarter, an increase of 110% over the year earlier quarter. Barcrest sold 9,500 units during the second quarter of fiscal 2001 compared to 11,900 in the same quarter last year. The prior year second quarter was a record for Barcrest with over 3,300 units sold into the Spanish market.

Gross profit on product sales for the second quarter of fiscal 2001 increased to \$86.5 million or 39% of related revenues compared to \$43.4 million or 37% for the second quarter of fiscal 2000. This margin improvement is attributable to the increased sales volumes, higher average pricing related to a stronger mix of new video and voucher products, and a higher proportion of domestic sales in the total product sales mix.

Revenues from gaming operations for the second quarter improved 23% to \$91.6 million compared to \$74.6 million in the same quarter last year. The gross profit on gaming operations, excluding joint ventures, increased 20% to \$50.3 million for the current quarter from \$41.8 million in the comparable prior year quarter. The gross profit margins on gaming operations were 55% and 56% of related

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

revenues in the second quarter of the current and prior fiscal year periods. The current quarter margin percentage was negatively impacted by lower interest

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

rates which increased the cost of funding jackpots.

Earnings of unconsolidated affiliates, reported net of expenses for accounting purposes, grew 38% to \$34.2 million from \$24.8 million in the comparable prior year quarter.

The continued growth in the proprietary gaming segment reflects excellent player acceptance of IGT's new game themes, including the The Addams Family (TM) and Jeopardy!(R) Video. Another major factor in this growth is the continued rollout of many of our new and legacy MegaJackpots(TM) game themes into the expanding California market. The California installed base of MegaJackpots(TM) gaming machines doubled to nearly 1,200 units during the current quarter. Our joint venture activities contributed significantly to the growth in the proprietary gaming segments, with approximately 13,000 Wheel of Fortune(R) and I Dream of Jeannie(TM) Wheel games installed at the end of the current quarter. The total installed base of our MegaJackpots(TM) machines, including placement under joint ventures, totaled 22,600 units at the end of the current quarter compared to 16,800 at the end of the prior year quarter.

### Operating Expenses

Current quarter operating expenses totaled \$71.4 million or 23% of total revenues compared to \$55.7 million or 29% in the prior year quarter. Selling, general and administrative expenses increased \$11.5 million due to additional legal and compliance costs, as well as variable commission and incentive costs related to higher sales volumes. Depreciation and amortization expense, not included in cost of sales, decreased \$576,000 due to fully depreciated assets still in use. Research and development expenses increased \$2.2 million to \$15.5 million for the current quarter, primarily due to new game development costs. Bad debt expense increased \$3.1 million over the prior year quarter as a result of increased sales volumes.

### Other Income and Expense

Other income and expense for the current quarter resulted in net expense of \$14.5 million compared to \$15.5 million in the prior year quarter. Operation of our progressive gaming systems results in interest income from both the investment of cash and from investments purchased to fund jackpot payments. Interest expense on the jackpot liability is accrued at the rate earned on the investments purchased to fund the liability. Therefore, interest income and expense relating to funding jackpot winners are similar and increase at approximately the same rate based on the growth in total jackpot winners.

Our consolidated tax rate increased to 37% from 36% in the year earlier quarter. We expect this tax rate to be in effect for the full fiscal year 2001.

### Business Segments Operating Profit (See Note 10 of Notes to Condensed Consolidated Financial Statements)

IGT's operating profit by business segment reflects an appropriate allocation of operating expenses, interest income, and interest expense. Gaming operations and earnings from our joint venture activities are included in the proprietary gaming segment.

Product sales operating profit for the quarter just ended improved to \$42.3 million or 19% of related revenues compared to \$14.3 million or 12% in the prior year quarter, predominantly as the result of increased sales volumes, partially offset by higher operating expenses as discussed above.



## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

### and Results of Operations

In the second quarter of fiscal 2001, operating profit of the proprietary gaming segment totaled \$62.3 million, an increase of \$19.4 million or 45% over the same quarter last year. This improvement resulted from the growth of the installed base and excellent player acceptance of our new proprietary games, partially offset by lower interest rates which increased the cost of funding jackpots.

Six Months Ended March 31, 2001 Compared to the Six Months Ended April 1, 2000

Net income for the first half of fiscal 2001 grew to \$101.7 million or a record \$1.34 per diluted share compared to income before one-time items in the prior year period of \$52.0 million or \$0.64 per diluted share. Several one-time items affected the prior year results. In the second quarter of fiscal 2000, we recognized a loss of \$1.4 million (\$900,000, net of tax) on the sale of the gaming systems business unit previously purchased as a part of the acquisition of Olympic Amusements Pty. Limited in March 1998. Net income for the first six months of fiscal 2000 benefited from receipt of a legal settlement of \$27.0 million (\$17.3 million net of tax), partially offset by restructuring charges of \$1.8 million (\$1.2 million, net of tax) related to our Australian operations. Including these one-time items, net income was \$67.2 million or \$0.82 per diluted share for the first half of fiscal 2000.

#### Operating Income

For the six months just ended, operating income grew 81% to \$188.2 million or 32% of revenues compared to \$103.8 million or 27% of revenues in the first six months of fiscal 2000. This improvement was due to markedly higher volumes and improved operating efficiencies, partially offset by higher operating expenses, as discussed below.

#### Revenues, Gross Profit Margins and Earnings from Unconsolidated Affiliates

Total revenues for the first six months of fiscal 2001 grew 54% to \$583.2 million compared to \$378.9 million in the first six months of fiscal 2000, reflecting a 81% increase in product sales revenue and a 13% increase in gaming operations revenue. Both domestic and international revenues experienced marked improvements over the same period one year ago. International revenues improved 13% and domestic revenues increased by 69%. Gross profit on total revenues for the first six months of fiscal 2001 increased 52% to \$257.9 million compared to \$169.3 million for the first six months of fiscal 2000. This improvement was attributable to growth in profitability year-over-year for both product sales and gaming operations.

Worldwide, IGT shipped 60,400 gaming machines for record product sales of \$413.5 million during the current six months versus 42,300 machines and \$228.4 million in the comparable prior year period. Domestic shipments increased 97% to 31,500 units for the first half of fiscal 2001 from 16,000 units in the same period last year. This increase is due to strong growth in replacement sales, as well as the continued expansion in the Native American markets, particularly California. Sales to Native American markets grew to 12,000 units during the six months just ended from 2,500 machines in the year earlier period. The current period included 9,100 machines shipped to the California Native American market. Replacement demand is driven by an aging installed base of gaming machines, the popularity of IGT's new video reel game offerings, and the appeal of the new ticket-in/ticket-out voucher technology, which offers an alternative payout and vouchering solution to casino operators. At the end of the current period, over 15,000 EZ-Play(TM) machines were operating on voucher systems.

International shipments, comprising 48% of total units sold during the current six months, increased to 28,900 units from 26,300 units in the comparable prior year period. This increase was primarily related to Australia's improved

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

performance, shipping 5,400 units in the current six month period compared to 2,766 units in the first six months of fiscal 2000.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The gross profit margin on product sales grew to \$163.6 million or 40% of related revenue in the current six month period from \$84.9 million or 37% for the first six months of fiscal 2000. This margin improvement is due to increased sales volumes, higher average pricing related to a stronger mix of new video and voucher products, and a higher proportion of domestic sales in the total product sales mix.

Revenues from gaming operations for the first six months of fiscal 2001 grew 13% to \$169.7 million compared to \$150.5 million in the same prior year period. The gross profit on gaming operations increased to \$94.3 million or 56% of related revenue for the six months ended March 31, 2001 from \$84.3 million or 56% in the year earlier period.

Earnings of unconsolidated affiliates, reported net of expenses for accounting purposes, grew 43% to \$65.5 million in the six months just ended from \$45.6 million in the comparable prior year period.

The excellent player acceptance of IGT's exclusive new progressive game themes The Addams Family (TM) and Jeopardy!(R) Video contributed significantly to the growth in the proprietary gaming segment. Another major factor in the growth of this segment is the continued rollout of many of our MegaJackpots(TM) games into the expanding California market. At the end of this current period, the installed base of MegaJackpots(TM) machines in the California market was nearly 1,200 units. Our joint venture activities contributed significantly with approximately 13,000 Wheel of Fortune(R) and I Dream of Jeannie(TM) Wheel games installed at the end of the current period. The installed base of our proprietary machines, including placement under joint ventures, totaled 22,600 units at the end of the current period versus 16,800 one year earlier.

#### Operating Expenses

Current year-to-date operating expenses totaled \$135.2 million or 23% of total revenues compared to \$111.1 million or 29% in the comparable prior year period. Selling, general and administrative expenses increased \$18.1 million due to additional legal and compliance costs, as well as variable commission and incentive costs related to higher sales volumes. Depreciation and amortization expense, not included in cost of sales, decreased \$1.1 million due to fully depreciated assets still in use. Research and development expenses increased \$2.9 million to \$29.6 million for the current six months, primarily due to new game development costs. Bad debt expense increased \$7.0 million over the prior year period as the result of increased sales volumes, as well as specific reserves recorded related to Latin American receivables.

#### Other Income and Expense

Other income and expense, net, for the current six month period resulted in expense of \$26.7 million compared to income of \$1.1 million in the same period last year. The prior year period benefited from a \$27.0 million legal settlement. Operation of our progressive gaming systems results in interest income from both the investment of cash and from investments purchased to fund jackpot payments. Interest expense on the jackpot liability is accrued at the rate earned on the investments purchased to fund the liability. Therefore, interest income and expense relating to funding jackpot winners are similar and

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

increase at approximately the same rate based on the growth in total jackpot winners.

Our consolidated tax rate increased to 37% from 36% in the year earlier period. We expect this tax rate to be in effect for the full fiscal year 2001.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Segments Operating Profit (See Note 10 of Notes to Condensed Consolidated Financial Statements)

IGT's operating profit by business segment reflects an appropriate allocation of operating expenses, interest income, and interest expense. Gaming operations and earnings from our joint venture activities are included in the proprietary gaming segment.

Product sales operating profit for the six months just ended grew to \$81.0 million or 20% of related revenues compared to \$30.2 million or 13% in the prior year period. This improvement is primarily due to an increase in sales volumes, partially offset by higher operating expenses as discussed above.

Operating profit for the proprietary gaming segment in the first six months of fiscal 2001 totaled \$117.6 million, an increase of \$34.3 million or 41% over the same period last year. This improvement resulted from the growth of the installed base and excellent player acceptance of our new MegaJackpot(TM) games, partially offset by lower interest rates which increase the cost of funding jackpots.

### Financial Condition, Liquidity and Capital Resources

#### Capital Resources

IGT's sources of capital include, but are not limited to, cash flows from operations, the issuance of public or private placement debt, bank borrowings, and the issuance of equity securities. We believe that our available short-term and long-term capital resources are sufficient to fund our capital expenditure and operating capital requirements, scheduled debt payments, interest and income tax obligations, strategic investments, acquisitions, and share repurchases.

#### Credit Facilities

Our domestic and foreign borrowing facilities totaled \$264.4 million at March 31, 2001. Of this amount, \$4.0 million was drawn, \$2.8 million was reserved for letters of credit, and the remaining \$257.6 million was available for future borrowings. We are required to comply with certain covenants contained in these agreements which, among other things, limit financial commitments we may make without the written consent of the lenders and require the maintenance of certain financial ratios. At March 31, 2001, we were in compliance with all applicable covenants.

#### Summary of Cash Activities

In the first six months of fiscal 2001, IGT's cash decreased \$30.1 million due to net cash used in investing activities, partially offset by net cash provided by operating and financing activities. The primary uses of cash consisted of \$31.2 million for the acquisition of Silicon Gaming, Inc. (Silicon) in March 2001 and \$12.2 million invested in property, plant and equipment.

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

Our proprietary MegaJackpots(TM) progressive systems provide cash through collections from systems to fund jackpot liabilities and from maturities of US government securities purchased to fund jackpot liabilities. Cash is used to make payments to jackpot winners or to purchase investments to fund liabilities to jackpot winners. These activities provided cash of \$5.9 million in the first six months of fiscal 2001 and used cash of \$17.2

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

million in the comparable prior year period. Fluctuations in net cash flows from systems represent differences between the growth in liabilities for jackpots and the actual payments to the winners during the period, based on the timing of the jackpot cycles and the volume of play across all of our MegaJackpots(TM) progressive systems.

**Operating Activities:** Cash provided by operating activities in the first six months of fiscal 2001 totaled \$377,000 compared to the prior year period of \$88.0 million. The most significant fluctuations related to sales volumes and timing in receivables, inventories, prepaid expenses, accounts payable and accrued liabilities, and accrued income taxes. The fluctuation in the earning of unconsolidated affiliates is due to the timing of cash distributions.

**Investing Activities:** The primary use of investing cash for the current period related to the acquisition of Silicon. See Note 11 of Notes to Condensed Consolidated Financial Statements. Use of cash from investing activities also included purchases of property, plant, and equipment totaling \$12.2 million in the current six month period compared to \$5.7 million in the prior year period. This fluctuation is primarily due to asset additions as a result of increased operations. Investing cash provided in the prior period was primarily due to proceeds from the sale of the Miss Marquette riverboat held for sale as part of the Sodak acquisition.

**Financing Activities:** The primary sources of cash in financing activities in the current period were collections from systems and proceeds from employee stock plans. The primary use of cash in financing activities in the prior year period related to stock repurchases.

#### Stock Repurchase Plan

Our Board of Directors originally authorized IGT's stock repurchase plan in October 1990. As of April 28, 2001, the remaining share repurchase authorization, as amended, totaled 10.8 million additional shares. No significant additional shares have been repurchased during the first seven months of fiscal 2001.

#### Recently Issued Accounting Standards

On June 30, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards for derivative instruments and hedging activities. IGT adopted SFAS 133 on October 1, 2000 and it has not had a material impact on our financial condition or results of operations. See Note 12 of Notes to Condensed Consolidated Financial Statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 clarifies existing accounting principles related to revenue recognition in

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

financial statements and is effective for the fourth quarter of our fiscal year 2001. We believe that the adoption of this statement will not have a material impact on our financial condition or results of operations.

### Euro Currency Conversions

On January 1, 1999, 11 of 15 member countries of the European Union fixed conversion rates between their existing currencies and one common currency - the "euro". Conversion to the euro eliminated currency exchange rate risk between the member countries. The euro trades on currency exchanges and may be used in business transactions. Beginning in January 2002, new euro-denominated bills and coins will be issued and the former currencies will be withdrawn from circulation.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our operating subsidiaries affected by the euro conversion have established plans to address the issues raised by the euro currency conversion. These issues include: the need to adapt financial systems and business processes; changes required to equipment, such as coin validators and note acceptors, to accommodate euro-denominated transactions in our current products; and the impact of one common currency on pricing. We do not expect material system and equipment conversion costs related exclusively to the euro. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects that one common currency will have on pricing and the resulting impact, if any, on our financial condition or results of operations.

### Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

#### Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" and similar terms and phrases, including references to assumptions.

Such forward-looking statements and IGT's operations, financial condition and results of operations involve known and unknown risks and uncertainties. Such risks and factors include, but are not limited to, the following:

- o a decline in demand for IGT's gaming products or reduction in the growth rate of new and existing markets;
- o delays of scheduled openings of newly constructed or planned casinos;
- o the effect of changes in economic conditions;
- o a decline in public acceptance of gaming;
- o unfavorable public referendums or anti-gaming legislation;
- o unfavorable legislation affecting or directed at manufacturers or operators of gaming products and systems;
- o delays in approvals from regulatory agencies;
- o political and economic instability in developing markets for IGT's products;
- o a decline in the demand for replacement machines;
- o a decrease in the desire of established casinos to upgrade machines in

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

- o response to added competition from newly constructed casinos;
- o a decline in the appeal of IGT's gaming products or an increase in the popularity of existing or new games of competitors;
- o acceptance of new technology by our customers;
- o changes in interest rates causing a reduction of investment income or in market interest rate sensitive investments;
- o loss or retirement of our key executives or other key employees;
- o approval of pending patent applications of parties unrelated to IGT that restrict our ability to compete effectively with products that are the subject of such pending patents or infringement upon existing patents;
- o the effect of regulatory and governmental actions, including regulatory or governmental actions challenging our compliance with applicable gaming regulations;
- o unfavorable determinations or challenges of suitability by gaming regulatory authorities with respect to our officers, directors or key employees;
- o the limitation, conditioning, suspension or revocation of any of our gaming licenses;
- o fluctuations in foreign exchange rates, tariffs and other barriers;

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

- o adverse changes in the credit worthiness of parties with whom IGT has forward currency exchange contracts;
- o the loss of sublessors of leased properties no longer used by IGT;
- o with respect to legal actions pending against IGT, the discovery of facts not presently known to IGT or determinations by judges, juries or other finders of fact which do not accord with IGT's evaluation of the possible liability or outcome of existing litigation.

We do not undertake to update our forward-looking statements to reflect future events or circumstances.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Market Risk

Under established procedures and controls, IGT enters into contractual arrangements, or derivatives, in the ordinary course of business to hedge its exposure to foreign exchange rate and interest rate risk. The counterparties to these contractual arrangements are major financial institutions. Although IGT is exposed to credit loss in the event of nonperformance by these counterparties, management believes that losses related to counterparty credit risk is not likely.

#### Foreign Currency Risk

We routinely use forward exchange contracts to hedge our net exposures, by currency, related to the monetary assets and liabilities of our operations denominated in non-functional currency. The primary business objective of this hedging program is to minimize the gains and losses resulting from exchange rate changes. At March 31, 2001, we had net foreign currency exposure of \$48.0 million, of which \$44.2 million was hedged with currency forward contracts. At September 30, 2000, we had net foreign currency exposure of \$58.0 million hedged with \$63.5 million in currency forward contracts. In addition, from time to

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

time, we may enter into forward exchange contracts to establish with certainty the US dollar amount of future firm commitments denominated in a foreign currency. There were no firm commitment hedges at the end of the current or prior year periods.

Given our foreign exchange position, a 10% adverse change in foreign exchange rates upon which these foreign exchange contracts are based would result in exchange gains and losses. In all material aspects, these exchange gains and losses would be fully offset by exchange gains and losses on the underlying net monetary exposures for which the contracts are designated as hedges. We do not expect material exchange rate gains and losses from unhedged foreign currency exposures.

As currency exchange rates change, translation of the income statements of our international businesses into US dollars affects year-over-year comparability of operating results. IGT does not generally hedge translation risks because cash flows from international operations are generally reinvested locally.

Changes in the currency exchange rates that would have the largest impact on translating our international operating results include the Australian dollar, the British pound and the Japanese yen. We estimate that a 10% change in foreign exchange rates would impact reported operating results by approximately \$1.0 million in both the current and prior year-to-date periods. This sensitivity analysis disregards the possibility that rates can move in opposite directions and that gains from one area may or may not be offset by losses from another area.

### Interest Rate Risk

IGT's results of operations are exposed to fluctuations in bank lending rates and the cost of US government securities used to fund liabilities to jackpot winners. We record expense for future jackpots based on these rates which are impacted by market interest rates and other economic conditions. Therefore, the gross profit on our proprietary gaming segment decreases when interest rates decline. We estimated that a 10% decline in interest rates would have impacted gaming operations gross profit by \$1.4 million and earnings of unconsolidated affiliated by \$0.9 million in the current six month period versus \$0.9 million and \$0.6 million in the comparable prior year period. IGT currently does not manage this exposure with derivative financial instruments.

Our outstanding Senior Notes carry interest at fixed rates. If interest rates increased by 10%, we estimated the fair market value of these notes would have decreased approximately \$35.7 million at March 31, 2001 and \$40.1 million at September 30, 2000.

## Part II - Other Information

### Item 1. Legal Proceedings

(See Note 9 of Notes to Condensed Consolidated Financial Statements)

### Item 2. Changes in Securities

None.

### Item 3. Defaults Upon Senior Securities

## Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

None.

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

- (a) On March 5, 2001, the Company held its annual meeting of stockholders.
- (b) The following directors were elected to serve until the next annual meeting: G. Thomas Baker, Robert A. Bittman, Albert J. Crosson, Wilbur K. Keating, Charles N. Mathewson, Robert Miller, Frederick B. Rentschler and Rockwell A. Schnabel. These directors constitute all of the directors of the Company. Voting at the meeting was as follows:

|                         | Number of<br>Shares Voted<br>For | Number of<br>Shares Withheld |
|-------------------------|----------------------------------|------------------------------|
|                         | -----                            | -----                        |
| G. Thomas Baker         | 67,748,900                       | 717,852                      |
| Robert A. Bittman       | 67,703,806                       | 762,946                      |
| Albert J. Crosson       | 67,707,844                       | 758,908                      |
| Wilbur K. Keating       | 68,110,521                       | 356,231                      |
| Charles N. Mathewson    | 67,712,284                       | 754,468                      |
| Robert Miller           | 68,126,917                       | 339,835                      |
| Frederick B. Rentschler | 68,147,118                       | 319,634                      |
| Rockwell A. Schnabel    | 54,729,043                       | 13,737,709                   |

- (c) Stockholders approved amendments by the Board on December 5, 2000 to the Company's 1993 Stock Option Plan (Plan) to delete the 50,000 share limitation of the non-employee director option grant program. Number of shares voted for the amendment totaled 59.9 million, with 8.6 million shares withheld.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.15 International Game Technology 1993 Stock Option Plan, Amended and Restated as of August 27, 1996, Composite Plan Document Incorporating Amendments 1998-I, 1998-II and 2000-I.
- 10.16 Employment agreement with Maureen Mullarkey, Senior Vice President and Chief Financial Officer dated January 12, 2001.

(b) Reports on Form 8-K

None



Edgar Filing: INTERNATIONAL GAME TECHNOLOGY - Form 10-Q/A

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

Date: August 3, 2001

INTERNATIONAL GAME TECHNOLOGY

By: /s/ Maureen Mullarkey

-----  
Maureen Mullarkey  
Senior Vice President and  
Chief Financial Officer