INTERNATIONAL GAME TECHNOLOGY
Form 10-Q
August 10, 2011

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

FORM 10-Q

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

For the Quarterly Period Ended July 2, 2011

OR

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

For the transition period from ____ to ____

Commission File Number 001-10684

International Game Technology

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

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

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

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 [ ]

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

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

(Do not check if a smaller reporting company)

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

The number of shares outstanding of each of the registrant’s classes of common stock, as of August 9, 2011:
298.5 million shares of common stock at $.00015625 par value.

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

Fiscal dates--as presented:	Fiscal dates--actual:
June 30, 2011	July 2, 2011
June 30, 2010	July 3, 2010
September 30, 2010	October 2, 2010

Abbreviation/term	Definition
Anchor	Anchor Gaming
ARS	auction rate securities
ASU	Accounting Standards Update
5.5% Bonds	5.5% fixed rate notes due 2020
7.5% Bonds	7.5% fixed rate notes due 2019
bps	basis points
CCSC	Colorado Central Station Casino
CEO	chief executive officer
CFO	chief financial officer
CLS	China LotSynergy Holdings, Ltd.
DCF	discounted cash flow
DigiDeal	DigiDeal Corporation
EBITDA	earnings before interest, taxes, depreciation, and amortization
EPA	Environmental Protection Agency
EPS	earnings per share
ERISA	Employee Retirement Income Security Act
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
IGT, we, our, the Company	International Game Technology and its consolidated entities
IFRS	International Financial Reporting Standards
IP	intellectual property
IRS	Internal Revenue Service
LIBOR	London inter-bank offering rate
MDA	management’s discussion and analysis of financial condition and results of operations
Notes	3.25% convertible notes due 2014
OSHA	Occupational Safety & Health Administration
pp	percentage points
R&D	research and development
sbX®	IGT’s complete server-based player experience management solution
SEC	Securities and Exchange Commission
SIP	2002 Stock Incentive Plan
UK	United Kingdom
US	United States
UTBs	unrecognized tax benefits
VIE	variable interest entity
WAP	wide area progressive
*	not meaningful (in tables)

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Interim Financial Statements

CONSOLIDATED INCOME STATEMENTS

	Quarters Ended June 30,		Nine Months Ended June 30,	
(In millions, except per share amounts)	2011	2010	2011	2010
Revenues				
Gaming operations	$267.4	$268.9	$790.1	$813.3
Product sales	221.6	206.0	627.1	629.7
Total revenues	489.0	474.9	1,417.2	1,443.0
Costs and operating expenses				
Cost of gaming operations	102.8	113.4	299.2	321.2
Cost of product sales	97.6	93.5	277.4	301.6
Selling, general and administrative	82.5	81.5	253.8	245.4
Research and development	48.5	48.4	146.1	139.4
Depreciation and amortization	16.8	18.0	51.6	55.8
Impairment	-	-	-	53.1
Total costs and operating expenses	348.2	354.8	1,028.1	1,116.5
Operating income	140.8	120.1	389.1	326.5
Other income (expense)				
Interest income	13.3	15.1	40.0	46.5
Interest expense	(30.5)	(42.7)	(101.5)	(124.9)
Other	(1.9)	3.7	1.4	3.3
Total other income (expense)	(19.1)	(23.9)	(60.1)	(75.1)
Income from continuing operations before tax	121.7	96.2	329.0	251.4
Income tax provision (benefit)	29.9	(0.1)	96.7	54.9
Income from continuing operations	91.8	96.3	232.3	196.5
Loss from discontinued operations, net of tax	(4.9)	(4.2)	(2.1)	(30.4)
Net income	$86.9	$92.1	$230.2	$166.1
Basic earnings (loss) per share				
Continuing operations	$0.31	$0.32	$0.78	$0.66
Discontinued operations	(0.02)	(0.01)	(0.01)	(0.10)
Net income	$0.29	$0.31	$0.77	$0.56
Diluted earnings (loss) per share				
Continuing operations	$0.30	$0.32	$0.77	$0.66
Discontinued operations	(0.01)	(0.01)	-	(0.11)
Net income	$0.29	$0.31	$0.77	$0.55
Cash dividends declared per share	$0.06	$0.06	$0.18	$0.18
Weighted average shares outstanding				
Basic	299.2	297.0	298.4	296.0
Diluted	300.7	298.9	299.9	298.1

See accompanying notes

CONSOLIDATED BALANCE SHEETS

(In millions, except par value)		June 30, 2011		September 30, 2010
Assets				
Current assets				
Cash and equivalents	$	316.3	$	158.4
Restricted cash and investment securities		83.2		88.1
Restricted cash and investment securities of VIEs		1.9		2.4
Jackpot annuity investments		48.9		49.5
Jackpot annuity investments of VIEs		14.8		15.6
Accounts receivable, net		291.1		290.3
Current maturities of contracts and notes receivable, net		169.5		184.1
Inventories		91.3		97.6
Deferred income taxes		86.9		84.3
Assets of discontinued operations		58.4		0.3
Other assets and deferred costs		146.8		231.8
Total current assets		1,309.1		1,202.4
Property, plant and equipment, net		584.3		586.7
Jackpot annuity investments		280.3		299.1
Jackpot annuity investments of VIEs		56.3		61.7
Contracts and notes receivable, net		123.8		171.9
Goodwill		1,239.3		1,151.6
Other intangible assets, net		188.8		202.1
Deferred income taxes		116.8		136.8
Other assets and deferred costs		177.7		194.7
Total Assets	$	4,076.4	$	4,007.0
Liabilities and Shareholders' Equity				
Liabilities				
Current liabilities				
Accounts payable	$	106.0	$	84.6
Jackpot liabilities, current portion		138.5		179.1
Accrued employee benefits		27.0		23.9
Accrued income taxes		3.8		1.8
Dividends payable		18.0		17.9
Liabilities of discontinued operations		19.3		5.5
Other accrued liabilities		215.1		269.5
Total current liabilities		527.7		582.3
Long-term debt		1,571.3		1,674.3
Jackpot liabilities		368.4		391.8
Other liabilities		155.6		124.3
Total Liabilities		2,623.0		2,772.7
Commitments and Contingencies				
Shareholders' Equity				

Common stock: $.00015625 par value; 1,280.0 shares authorized; 341.6 and 339.1 issued; 298.8 and 298.1 outstanding		0.1		0.1
Additional paid-in capital		1,532.1		1,473.7
Treasury stock at cost: 42.8 and 41.0 shares		(829.6)		(802.0)
Retained earnings		728.2		551.8
Accumulated other comprehensive income		19.9		10.7
Total IGT Shareholders' Equity		1,450.7		1,234.3
Noncontrolling Interests		2.7		-
Total Equity		1,453.4		1,234.3
Total Liabilities and Shareholders' Equity	$	4,076.4	$	4,007.0

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended June 30, (In millions)	2011	2010
Operating		
Net income	$ 230.2	$ 166.1
Adjustments:		
Depreciation and amortization	167.3	179.4
Discounts and deferred issuance costs	33.6	36.8
Share-based compensation	32.0	31.3
Loss on other assets and impairment	10.7	59.8
Excess tax benefits from employee stock plans	(2.9)	(8.3)
Gain on assets sold	(15.2)	(0.7)
Other, net	7.0	18.5
Changes in operating assets and liabilities, excluding acquisitions:		
Receivables	15.1	35.6
Inventories	(2.3)	35.3
Other assets and deferred costs	27.0	49.5
Income taxes, net of employee stock plans	73.2	(54.2)
Accounts payable and accrued liabilities	(46.0)	(90.4)
Jackpot liabilities	(81.0)	(34.9)
Net operating cash flows	448.7	423.8
Investing		
Capital expenditures	(155.1)	(178.2)
Proceeds from assets sold	14.7	7.2
Investment securities, net	-	21.6
Jackpot annuity investments, net	42.8	44.9
Changes in restricted cash	22.9	(7.9)
Loans receivable cash advanced	(0.5)	(17.7)
Loans receivable payments received	24.4	10.4
Unconsolidated affiliates, net	16.5	(4.9)
Business/VIE acquisition/deconsolidation	(105.9)	(1.4)
Net investing cash flows	(140.2)	(126.0)
Financing		
Debt proceeds	95.0	1,350.3
Debt repayments	(195.0)	(1,593.4)
Debt issuance costs	(4.4)	(0.1)
Employee stock plan proceeds	30.5	15.2
Excess tax benefits from employee stock plans	2.9	8.3
Share repurchases	(25.0)	-
Dividends paid	(53.8)	(53.5)
Net financing cash flows	(149.8)	(273.2)
Foreign exchange rates effect on cash and equivalents	(0.8)	(6.4)
Net change in cash and equivalents	157.9	18.2

Beginning cash and equivalents		158.4		146.7
Ending cash and equivalents	$	316.3	$	164.9

See accompanying notes

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SUPPLEMENTAL CASH FLOWS INFORMATION

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

Nine Months Ended June 30, (In millions)	2011	2010
Jackpot funding		
Change in jackpot liabilities	$ (81.0)	$ (34.9)
Jackpot annuity purchases	(3.9)	(3.8)
Jackpot annuity proceeds	46.7	48.7
Net change in jackpot annuity investments	42.8	44.9
Net jackpot funding	$ (38.2)	$ 10.0
Capital expenditures		
Property, plant and equipment	$ (10.8)	$ (15.9)
Gaming operations equipment	(143.2)	(159.9)
Intellectual property	(1.1)	(2.4)
Total	$ (155.1)	$ (178.2)
Payments		
Interest	$ 74.1	$ 83.3
Income taxes	18.3	109.3
Non-cash investing and financing items:		
Accrued capital asset additions	$ 2.0	$ 2.1
Interest accretion for jackpot annuity investments	17.0	18.7
Business acquisitions/purchase price adjustments and VIE deconsolidations		
Fair value of assets	$ 131.1	$ (0.8)
Fair value of liabilities and noncontrolling interests	25.2	(2.2)

See accompanying notes

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

Our fiscal year is reported on a 52/53-week period ending on the Saturday nearest to September 30 each year. Similarly, our quarters end on the Saturday nearest to the last day of the quarter end month. For simplicity, fiscal periods in this report were presented using the calendar month end as outlined in the table below.

	Period End	
	Actual	Presented as
Current quarter	July 2, 2011	June 30, 2011
Prior year quarter	July 3, 2010	June 30, 2010
Prior year end	October 2, 2010	September 30, 2010

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

Our consolidated interim financial statements for the current quarter and nine months ended June 30, 2011 have been prepared without audit and certain information and footnote disclosures have been condensed or omitted in conformity with SEC and US GAAP requirements on a basis consistent with the corresponding quarter and nine months ended June 30, 2010, and as appropriate, with the audited financial statements for the year ended September 30, 2010.

Our consolidated interim financial statements include all adjustments of a normal recurring nature necessary to fairly state our consolidated results of operations, financial position, and cash flows for all periods presented. Interim period results are not necessarily indicative of full year results. This quarterly report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2010. Unless otherwise noted, references to years in this report relate to our fiscal years ending September 30.

Use of Estimates

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

Receivables

Allowances for Credit Losses

We maintain allowances for credit losses related to accounts receivable and customer financing where collectability is uncertain. We evaluate the adequacy of our allowances for credit losses on a quarterly basis and consider a number of factors applicable to all of our customer receivables and financing, including customers' financial condition, historical customer collection experience, receivable aging, economic conditions, legal environment, and regulatory landscape.

Customer Financing

Our customer financing portfolio is comprised of two classes, contracts and notes. Our contracts include extended payment terms granted to qualifying customers for periods from one to five years and are secured by the related products sold. Our notes consist of development financing loans granted to select customers to assist in the funding of new or expanding gaming facilities, generally under terms of one to seven years and are secured by the developed property and/or other assets. Interest income on contracts and notes is recognized at prevailing market rates.

We place an internally assigned risk grade on each contract and note in our customer financing portfolio. Internally assigned risk grades fall into three categories (low, medium, high), based on a number of factors, including customer size, type, financial condition, historical collection experience, account aging, and credit ratings derived from credit reporting agencies and other industry trade reports. The high risk category includes most of our development financing loans in new markets and customers in regions with a history of currency or economic instability, such as South/Central America. Many of our high risk loans are performing according to contract and do not warrant an allowance. Internally assigned risk grades on each contract and note are evaluated on a quarterly basis.

Customer financing is classified as past due when a scheduled payment is not received within 30 days of a payment notice. Initially customer financing with past due payments are collectively evaluated for impairment. Contracts and notes are evaluated individually for impairment (specific reserves) when collectability becomes uncertain due to events and circumstances, such as bankruptcy and tax or legal issues, that cause an adverse change in a customer's cash flows or financial condition. Accounts placed on specific reserve are simultaneously evaluated for probability of collection, which is used to determine the amount of the specific reserve. All changes in the net carrying amount of our contracts and notes are recorded as adjustments to bad debt expense or impairment.

When collection is deemed unlikely (typically reserved at 50% or greater) during our quarterly review as discussed above, the contract or note is placed on nonaccrual status and interest income is recognized on a cash basis. Uncollectible contracts or notes are written off when all reasonable collection efforts have been exhausted and it is determined that there is minimal chance of any kind of recovery, such as a customer property closure, bankruptcy restructuring or finalization, or other conditions that severely impact a customer's ability to repay amounts owed.

Recently Adopted Accounting Standards or Updates

Credit Quality of Financing Receivables and Allowances for Credit Losses

At the beginning of 2011, we adopted accounting standards issued in July 2010 to address the FASB concerns about the sufficiency, transparency, and robustness of credit risk disclosures for financing receivables and the related allowances for credit losses. The required information is designed to enable a better understanding of:

- the nature of credit risk inherent in our portfolio of financing receivables
- how credit risk is analyzed to determine the allowances for credit losses
- changes in and reasons for changes in the allowances for credit losses

These ASU disclosures were effective for our 2011 first quarter, except for allowance roll-forward disclosures effective for our 2011 second quarter and troubled debt restructuring disclosures effective for our year ending September 30, 2011. The adoption of this ASU did not and will not have a material impact on our financial statements. See Note 1 above and Note 3.

Consolidation of Variable Interest Entities

At the beginning of 2011, we adopted accounting standards issued in June 2009, which require reassessment of our primary beneficiary position in VIE arrangements on an on-going basis and adds further disclosures about our involvement in VIEs. The revised standard also replaces the quantitative-based risks and rewards approach with a qualitative approach focused on determining which enterprise has the power to direct VIE activities that most significantly impact its economic performance and is obligated to absorb losses or has the rights to receive the most significant benefit from the VIE. The adoption of this ASU did not have a material impact on our financial statements.

Recently Issued Accounting Standards or Updates—Not Yet Adopted

Fair Value Measurement Disclosures

In January 2010, the FASB issued an ASU which will require supplemental disclosures related to purchases, sales, issuances, and settlements of fair value instruments within the Level 3 reconciliation. This ASU will be effective for our 2012 first quarter and is not expected to have a material impact on our financial statements.

Additionally, in May 2011, the FASB issued an ASU to amend fair value measurement to achieve convergence between US GAAP and IFRS. The ASU changes some fair value measurement principles and disclosure requirements and is effective for our 2012 second quarter and not expected to have a material impact on our financial statements.

Accruals for Casino Jackpot Liabilities

In April 2010, the FASB issued an ASU clarifying that jackpot liabilities should not be accrued before they are won if the payout can be avoided. The ASU will be applied prospectively with a cumulative-effect adjustment in retained earnings at the beginning of 2012. This ASU is not expected to have a material impact on our financial statements.

Presentation of Comprehensive Income

In June 2011, the FASB issued an ASU to require other comprehensive income, including reclassification adjustments, to be presented with net income in one continuous statement or in a separate statement consecutively following net income. The ASU will be effective for our 2013 first quarter and is not expected to have a material impact on our financial statements.

2. VARIABLE INTERESTS AND AFFILIATES

Variable Interest Entities

New Jersey regulation requires that annuitized WAP jackpot payments to winners be administered through an individual trust set up for each WAP system. These trusts are VIEs. We determined that IGT was the primary consolidating beneficiary, because these VIE trusts are designed for the sole purpose of administering jackpot payments for IGT WAP winners and IGT guarantees all liabilities of the trusts. The assets of these consolidated VIEs can only be used to settle trust obligations and have been segregated on our balance sheet.

The consolidation of these VIEs primarily increases jackpot liabilities and related assets, as well as interest income and equivalent offsetting interest expense. Consolidated VIE trust assets and equivalent liabilities totaled $73.0 million at June 30, 2011 and $79.7 million at September 30, 2010.

Investments in Unconsolidated Affiliates

China LotSynergy Holdings, Ltd.

During the 2011 first quarter, we sold our CLS stock investment for net proceeds of $16.5 million and recognized a gain of $4.3 million.

At June 30, 2011, the fair value of our CLS convertible note and default put derivative together totaled $21.5 million. The adjusted cost basis of the note, including the conversion option, totaled $20.4 million. We determined that the conversion option did not qualify as a freestanding derivative requiring bifurcation at June 30, 2011. See Note 8 and Note 9 for additional information about CLS fair value assumptions and derivatives.

3. RECEIVABLES

See Note 1 regarding our accounting policies for accounts receivable, customer financing and allowances for credit losses. Our allowances for accounts receivable totaled $17.8 million at June 30, 2011 and $24.6 million at September 30, 2010.

Customer Financing (Contracts and Notes)

	June 30, 2011			September 30, 2010		
(In millions)	Recorded Investment	Allowance	Net	Recorded Investment	Allowance	Net
Current maturities	$ 205.9	$ 36.4	$ 169.5	$ 223.9	$ 39.8	$ 184.1
Non-current	155.5	31.7	123.8	210.5	38.6	171.9
Total	$ 361.4	$ 68.1	$ 293.3	$ 434.4	$ 78.4	$ 356.0

Customer Financing Information At June 30, 2011

Recorded Investment (principal and interest due, net of deferred interest and fees) (In millions)	Total
Individually evaluated for impairment	$ 106.3
Collectively evaluated for impairment	255.1
Total recorded investment	$ 361.4

Allowances for Credit Losses (In millions)	Total
Beginning balance	$ 78.4
Charge-offs	(9.3)
Recoveries	0.4
Provision	(1.4)
Ending balance	$ 68.1
Individually evaluated for impairment	$ 55.7
Collectively evaluated for impairment	12.4
Total allowances for credit losses	$ 68.1

Age Analysis of Recorded Investment (In millions)	Contracts	Notes	Total
Past Due:			
1-29 days	$ 3.3	$ 1.9	$ 5.2
30-59 days	1.8	1.8	3.6
60-89 days	1.5	1.8	3.3
Over 90 days	5.6	25.6	31.2
Total past due	$ 12.2	$ 31.1	$ 43.3
Current	182.7	135.4	318.1
Total recorded investment	$ 194.9	$ 166.5	$ 361.4
Customer financing recorded investment:			
Over 90 days and accruing interest	$ 1.7	$ 0.1	$ 1.8
Nonaccrual status (not accruing interest)	16.8	83.9	100.7

Recorded Investment by Credit Quality Indicator Credit Profile by Internally Assigned Risk Grade (In millions)	Contracts	Notes	Total

Low	$ 41.9	$ -	$ 41.9
Medium	29.3	0.4	29.7
High (1)	123.7	166.1	289.8
Total recorded investment	$ 194.9	$ 166.5	$ 361.4

(1) See Alabama impairment discussion below.

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Impaired loans (In millions)	Contracts	Notes	Total
Recorded investment	$ 6.3	$ 83.9	$ 90.2
Unpaid principal face	6.2	85.2	91.4
Related allowance	3.5	52.2	55.7
Average recorded investment	9.4	87.5	96.9
Interest income recognized:			
Quarter-to-date			
Total	$ 0.2	$ -	$ 0.2
Cash-basis	-	-	-
Year-to-date			
Total	$ 0.6	$ 0.3	$ 0.9
Cash-basis	-	0.3	0.3

Alabama Impairment

The legality of electronic charitable bingo in Alabama was challenged during 2010 and IGT machines ceased to be operated at the VictoryLand Country Crossing and Greenetrack facilities. In our 2010 second quarter, $53.1 million of impairment was recognized related to Alabama charitable bingo market closures, which included note allowances of $47.6 million, accounts receivable allowances of $2.8 million, and gaming operations equipment impairment of $2.7 million. Further Alabama impairment of $8.2 million was recognized in our 2010 fourth quarter, including note allowances of $4.3 million and equipment impairment of $3.9 million.

At June 30, 2011, the recorded investment of impaired Alabama development financing loans totaled $83.9 million and related allowances totaled $51.9 million. Revenues or interest income related to these assets were recorded on a cash basis since our 2010 second quarter as collectability was not reasonably assured.

4. CONCENTRATIONS OF CREDIT RISK

Our receivables were concentrated in the following legalized gaming regions at June 30, 2011:

North America		
Nevada	10	%
Oklahoma	6	
Alabama	5	
Other (less than 5% individually)	28	
	49	%
International		
Argentina	26	%
Europe	9	
Australia	6	
Other (less than 5% individually)	10	
	51	%

5. INVENTORIES

(In millions)	June 30, 2011	September 30, 2010
Raw materials	$ 50.7	$ 54.5
Work-in-process	3.4	3.9
Finished goods	37.2	39.2
Total	$ 91.3	$ 97.6

6. PROPERTY, PLANT AND EQUIPMENT

(In millions)	June 30, 2011	September 30, 2010
Land	$ 62.7	$ 62.7
Buildings	233.2	230.9
Leasehold improvements	16.6	14.6
Machinery, furniture and equipment	280.2	286.0
Gaming operations equipment	817.1	804.9
Total	1,409.8	1,399.1
Less accumulated depreciation	(825.5)	(812.4)
Property, plant and equipment, net	$ 584.3	$ 586.7

7. GOODWILL AND OTHER INTANGIBLES

Goodwill

Activity by Segment For The Nine Months Ended June 30, 2011 (In millions)	North America	International	Total
Beginning balance	$ 1,042.8	$ 108.8	$ 1,151.6
Acquisition (See Note 17)	-	87.9	87.9
Disposition (See Note 18)	-	(2.3)	(2.3)
Foreign currency/purchase price adjustments	-	2.1	2.1
Ending balance	$ 1,042.8	$ 196.5	$ 1,239.3

Other Intangibles

Patent additions in the following table include capitalized legal costs.

Additions for the Nine Months ended June 30, 2011 (In millions, except life)	Business Combinations (See Note 17)	Other Additions	Weighted Average Life (Years)
Patents	$ -	$ 0.8	5
Developed technology	12.5	0.5	7
Customer relationships	6.5	-	6
Trademarks	0.8	-	3
Total	$ 19.8	$ 1.3	

	June 30, 2011			September 30, 2010		
Ending Balances (In millions)	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Patents	$ 382.7	$ 259.6	$ 123.1	$ 387.3	$ 238.8	$ 148.5
Developed technology	89.1	51.8	37.3	75.9	46.7	29.2

Contracts	25.5	19.0	6.5	26.2	17.9	8.3
Reacquired rights	13.4	1.8	11.6	13.4	1.0	12.4
Customer relationships	15.2	6.2	9.0	8.8	5.7	3.1
Trademarks	2.7	1.4	1.3	3.5	2.9	0.6
Total	$ 528.6	$ 339.8	$ 188.8	$ 515.1	$ 313.0	$ 202.1

Aggregate amortization expense totaled $11.1 million in the current quarter versus $12.6 million in the prior year quarter, and $34.3 million in the nine months ended June 30, 2011 versus $37.9 million for the prior year period.

(In millions)	2011	2012	2013	2014	2015
Estimated annual amortization	$ 46.7	$ 43.2	$ 39.0	$ 33.9	$ 24.5

8. FAIR VALUE MEASUREMENTS

Financial Assets (Liabilities) Carried at Fair Value

(In millions)	Fair Value	Level 1	Level 2	Level 3
June 30, 2011				
Money market funds	$ 99.0	$ 99.0	$ -	$ -
Investments in unconsolidated affiliates	21.5	-	-	21.5
Derivative assets	24.7	-	24.7	-
Derivative liabilities	(26.7)	-	(26.7)	-
September 30, 2010				
Money market funds	$ 137.5	$ 137.5	$ -	$ -
Investments in unconsolidated affiliates	34.0	12.7	-	21.3
Derivative assets	52.1	-	52.1	-
Derivative liabilities	(54.3)	-	(54.3)	-

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

	Nine Months Ended June 30,		
	2011	2010	
(In millions)	Investments in Unconsolidated Affiliates	Investments in Unconsolidated Affiliates	Investments in ARS and Put Rights
Beginning balance	$ 21.3	$ 78.4	$ 21.3
Total gain (loss):			
Included in other income (expense) - other	(2.1)	-	0.3
Included in other comprehensive income	0.6	5.6	-
Purchases, issuances, accretion, settlements	1.7	1.9	(21.6)
Ending balance	$ 21.5	$ 85.9	$ -
Net change in unrealized gain (loss) included in earnings related to instruments still held	$ (2.1)	$ -	$ -

Valuation Techniques and Balance Sheet Presentation

Money market funds were valued based on quoted market prices in active markets and are primarily money market securities.

Investments in unconsolidated affiliates were valued using quoted market prices when available or DCF models incorporating market participant assumptions for credit quality and market interest rates and a Black-Scholes or integrated lattice model with assumptions for stock price volatility and default recovery rates. These investments are presented as a component of other noncurrent assets. See Note 2.

Investments in ARS were valued using DCF, with certain assumptions related to lack of liquidity and observable market transactions. Related put rights were valued based on the difference between the ARS par and fair value, discounted for the broker's non-performance risk and the time remaining until the exercise period. Our entire portfolio of ARS was sold during fiscal 2010.

Derivative assets and liabilities were valued using quoted forward pricing from bank counterparties, LIBOR credit default swap rates for non-performance risk, and net settlement amounts where appropriate. These are presented primarily as components of other assets, other liabilities, and notes payable. See Note 9.

Financial Assets (Liabilities) Not Carried at Fair Value

	Carrying Value	Fair Value	Unrealized Gain	Unrealized Loss
(In millions)				
June 30, 2011				
Jackpot investments	$ 400.3	$ 450.3	$ 50.2	$ 0.2
Contracts & notes receivable	293.3	295.7	2.4	-
Jackpot liabilities	(506.9)	(504.3)	2.6	-
Debt	(1,545.2)	(1,911.5)	-	366.3
September 30, 2010				
Jackpot investments	$ 425.9	$ 495.2	$ 73.1	$ 3.8
Contracts & notes receivable	356.0	356.8	0.8	-
Jackpot liabilities	(570.9)	(567.5)	3.4	-
Debt	(1,622.2)	(1,933.2)	-	311.0

Valuation Techniques and Balance Sheet Presentation

Jackpot investments were valued based on quoted market prices.

Contracts and notes receivable were valued using DCF incorporating expected payments and current market interest rates relative to the credit risk of each customer.

Jackpot liabilities were valued using DCF models incorporating estimated funding rates, future payment timing, and IGT's nonperformance credit risk.

Debt was valued using quoted market prices or dealer quotes, when available, for the identical financial instrument when traded as an asset in an active market. Otherwise, fair value was determined using DCF models of expected payments on outstanding borrowings at current borrowing rates. Carrying values above excluded swap adjustments and equity components of convertible debt.

9. FINANCIAL DERIVATIVES

Foreign Currency Hedging

We hedge our net foreign currency exposure related to monetary assets and liabilities denominated in nonfunctional currency. The notional amount of foreign currency contracts hedging this exposure totaled $78.9 million at June 30, 2011, including contracts related to the pending sale of UK Barcrest Group, and $26.7 million at September 30, 2010.

In May 2007, we executed five-year forward contracts designated as a fair value hedge to protect a portion of the US dollar value of our Hong Kong dollar investment in the CLS convertible note (See Note 2). In conjunction with the early redemption of our CLS investment negotiated in September 2010, we executed additional contracts which effectively reduced the cumulative amount of forward contracts. The notional amount of foreign currency contracts hedging this exposure totaled $15.0 million for which there was no ineffectiveness during the nine months ended June

30, 2011.

Interest Rate Management

In conjunction with our 7.5% Bonds issued in June 2009, we executed $250.0 million notional value of interest rate swaps that exchange 7.5% fixed interest payments for variable rate interest payments at one-month LIBOR plus 342 bps reset two business days before the 15th of each month. In April 2011, we additionally executed $250.0 million notional value interest rate swaps that exchange the remaining fixed interest payments on our 7.5% Bonds for variable rate interest payments based on six-month LIBOR plus 409 bps reset in arrears two business days before June 15 and December 15 each year. All of these swaps terminate on June 15, 2019.

In conjunction with our 5.5% Bonds issued in June 2010, we executed $300.0 million notional value of interest rate swaps that terminate on June 15, 2020. These swaps effectively exchange 5.5% fixed interest payments for variable rate interest payments based on the six-month LIBOR plus 186 bps reset in arrears two business days before June 15 and December 15 each year. These swaps terminate on June 15, 2020.

All of our interest rate swaps are designated fair value hedges against changes in the fair value of a portion of their related bonds. Net amounts receivable or payable under our swaps settle semiannually on June 15 and December 15. Our assessments have determined that our interest rate swaps are highly effective.

Presentation of Derivative Amounts

Balance Sheet Location and Fair Value (In millions)	June 30, 2011	September 30, 2010
Non-designated Hedges		
Foreign currency contracts: Other assets and deferred costs (current)	$ 1.2	$ -
Foreign currency contracts: Other accrued liabilities	0.6	2.2
Designated Hedges		
Interest rate swaps: Other assets and deferred costs (noncurrent)	$ 23.5	$ 52.1
Interest rate swaps: Long-term debt	26.1	52.1

Income Statement Location and Gain (loss) (In millions)	Quarters Ended June 30, 2011	2010	Nine Months Ended June 30, 2011	2010
Non-designated Hedges				
Foreign currency contracts: Other income (expense)	$ 1.5	$ 0.5	$ 2.8	$ 1.2
Designated Hedges				
Foreign currency contracts: Other income (expense)	$ -	$ 0.2	$ -	$ 0.2
Interest rate swap - ineffectiveness: Other income (expense)	(2.3)	1.0	(2.6)	0.1
Interest rate swap - effectiveness: Interest expense	6.3	2.9	15.7	7.6

10. CREDIT FACILITIES AND INDEBTEDNESS

Outstanding debt (In millions)	June 30, 2011	September 30, 2010
Domestic credit facility	$ -	$ 100.0
3.25% Convertible Notes	850.0	850.0
7.5% Bonds	500.0	500.0
5.5% Bonds	300.0	300.0
Total principal debt obligations	1,650.0	1,750.0
Discounts:		
3.25% Convertible Notes	(101.3)	(124.1)
7.5% Bonds	(2.3)	(2.5)
5.5% Bonds	(1.2)	(1.2)
Swap fair value adjustments:		
7.5% Bonds	22.7	33.9
5.5% Bonds	3.4	18.2
Total outstanding debt, net	$ 1,571.3	$ 1,674.3

At June 30, 2011, IGT was in compliance with all debt covenants and embedded features of our debt agreements did not require bifurcation.

Domestic Credit Facility

At June 30, 2011, no amounts were drawn on our domestic credit facility, $728.7 million was available, and $21.3 million was reserved for letters of credit and performance bonds.

On April 14, 2011, we modified our domestic credit facility, reducing it from $1.2 billion to $750.0 million. The former facility was terminated in conjunction with the issuance of a new credit facility providing a $750.0 million revolving line of credit, of which up to $100.0 million is available for letters of credit and up to $50.0 million is available for swing line borrowing. Subject to lenders' discretion, we may increase the facility size by an additional $250.0 million at any time during its term. At maturity on April 14, 2016, all amounts outstanding will be immediately due and payable.

The new facility interest rates and facility fees are more favorable than the former facility and are based on our public debt ratings or our Net Funded Debt to EBITDA ratio, whichever is more favorable to IGT. Net Funded Debt is defined as debt minus any unrestricted cash and investments in excess of $150.0 million. The initial interest rate is LIBOR plus 122.5 bps on borrowings with a facility fee of 27.5 bps at the Baa2/BBB pricing level. As a result of the modification, deferred offering costs related to the former facility of $1.5 million were expensed and the remaining $9.8 million was combined with additional issuance costs of $4.5 million, to be collectively amortized over the new facility term.

The new domestic credit facility carries no limitations on share repurchases or dividend payments, presuming no event of default. The following new facility covenants are less restrictive than those under the former facility (all terms as defined per the new facility):

- a minimum ratio of 3.00 adjusted EBITDA to interest expense (interest coverage ratio)
- a maximum ratio of 3.50 for net funded debt to adjusted EBITDA (net funded debt leverage ratio)

- certain restrictions on our ability to:
  - § pledge the securities of our subsidiaries
  - § permit our subsidiaries to incur or guaranty additional debt, or enter into swap agreements
  - § incur liens
  - § merge with or acquire other companies, liquidate or dissolve
  - § sell, transfer, lease or dispose of all or substantially all assets
  - § change the nature of our business

The new facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including failure to make timely principal and interest payments or satisfy the covenants. An event of default, if not cured, could cause the entire outstanding borrowings under the credit facility to become immediately due and payable, lenders may cease making loans and/or terminate commitments, and cross default provisions may be triggered in other debt issuances.

Foreign Credit Facilities

At June 30, 2011, $10.8 million was available and nothing was drawn under our revolving credit facility in Australia, which generally renews annually with maturity in February and is guaranteed by the parent company, International Game Technology.

Convertible Debt

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
(In millions)				
3.25% Convertible Notes				
Contractual interest expense	$ 6.9	$ 6.9	$ 20.7	$ 20.7
Discount amortization	7.7	7.1	22.8	20.9
Remaining discount amortization period	2.9 years			
2.6% Convertible Debentures				
Contractual interest expense	$ -	$ -	$ -	$ 3.8
Discount amortization	-	-	-	2.7

Bonds

Interest rate swaps executed in conjunction with our Bonds are described in Note 9.

11. CONTINGENCIES

Litigation

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

Bally

2004 Federal District Court of Nevada

On December 7, 2004, IGT filed a complaint in US District Court for the District of Nevada, alleging that defendants Alliance Gaming Corp., Bally Gaming Int'l, Inc., and Bally Gaming, Inc. infringed six US patents held by IGT: US Patent Nos. 6,827,646; 5,848,932; 5,788,573; 5,722,891; 6,712,698; and 6,722,985. On January 21, 2005, defendants filed an answer denying the allegations in the complaint and raising various affirmative defenses to IGT's asserted claims. Defendants also asserted fourteen counterclaims against IGT, including counterclaims for a declaratory judgment of non-infringement, invalidity, and unenforceability of the asserted patents, and for antitrust violations and intentional interference with prospective business advantage. IGT successfully moved for partial summary judgment on defendants' counterclaims for intentional interference with prospective business advantage and defendants' antitrust allegations related to the gaming machine market. IGT denies the remaining allegations.

On May 9, 2007, the Court issued an order construing disputed terms of the asserted patent claims. On October 16, 2008, the Court issued summary judgment rulings finding certain of IGT's patents, including patents that IGT believes cover bonus wheel gaming machines, invalid as obvious. The rulings also found that Bally was not infringing certain patents asserted by IGT. Bally's antitrust and unfair competition counterclaims remain pending. On November 7, 2008, the Court issued an order staying the proceedings and certifying the summary judgment and claim construction rulings for immediate appeal.

On December 1, 2008, IGT appealed the rulings to the US Court of Appeals for the Federal Circuit. On January 8, 2009, Bally moved to dismiss the appeal on jurisdictional grounds. On February 2, 2009, the Federal Circuit denied the Bally motion without prejudice to the parties raising jurisdictional issues in their merits briefs. On October 22, 2009, the Federal Circuit affirmed the District Court's summary judgment rulings. On December 7, 2009, Bally filed a motion to lift the stay and schedule a trial on the remaining issues. At the February 1, 2010 hearing on the motion, the Court indicated that it would revisit earlier motions for summary judgment on the issues not addressed on appeal, including IGT's motions for summary judgment on Bally's antitrust and unfair competition counterclaims.

On November 29, 2010, the Court granted summary judgment in favor of IGT on all antitrust and unfair competition counterclaims by Bally and dismissed all other remaining claims. Bally has appealed the grant of summary judgment.

2006 Federal District Court of Delaware

On April 28, 2006, IGT filed a complaint in US District Court for the District of Delaware, alleging that defendants Bally Technologies, Inc., Bally Gaming Int'l, Inc., and Bally Gaming, Inc. infringed nine US patents held by IGT: US Patent Nos. RE 38,812; RE 37,885; 6,832,958; 6,319,125; 6,244,958; 6,431,983; 6,607,441; 6,565,434; and 6,620,046. The complaint alleges that the "BALLY POWER BONUSING™" technology infringes one or more of the claims of the asserted IGT patents. The lawsuit seeks monetary damages and an injunction.

On June 30, 2006, defendants filed an answer denying the allegations in the complaint and raising various affirmative defenses to IGT's asserted claims. Defendants also asserted twelve counterclaims against IGT, including counterclaims for a declaratory judgment of non-infringement, invalidity, and unenforceability of the asserted patents, antitrust violations, unfair competition, and intentional interference with prospective business advantage. IGT denies these allegations. Pursuant to stipulation of the parties, all claims and counterclaims, except those relating to US Patent Nos. RE 37,885 ("the '885 patent"), RE 38,812 ("the '812 patent"), and 6,431,983, have been dismissed. All proceedings relating to Bally's antitrust, unfair competition, and intentional interference counterclaims have been stayed.

On April 28, 2009, the court issued a summary judgment ruling finding the '885 and '812 patents valid. The court also ruled that Bally's "Power Rewards" and "ACSC Power Winners" products infringe certain claims of the '885 and '812 patents. The court granted Bally's motion for summary judgment that Bally's "SDS Power Winners" does not infringe the '885 patent and "Power Bank" and "Power Promotions" do not infringe the '983 patent. The court denied Bally's motion for summary judgment that the '983 patent is invalid. The parties have agreed that Bally's counterclaim for a declaratory judgment on invalidity of the '983 patent will be dismissed without prejudice. IGT's motion for a permanent injunction against Bally's infringing products was denied.

On April 28, 2010, the court entered an order dismissing without prejudice Bally's remaining counterclaims (antitrust, unfair competition and intentional interference with business relationships) and entered final judgment in favor of IGT and against the Bally defendants. An appeal from the liability judgment is proceeding. A trial to determine the amount of damages incurred by IGT, and related matters, as a result of Bally's infringement has not yet been scheduled.

Aristocrat

2006 Northern Federal District Court of California

On June 12, 2006, Aristocrat Technologies Australia PTY Ltd. and Aristocrat Technologies, Inc. filed a patent infringement lawsuit against IGT. Aristocrat alleged that IGT willfully infringed US Patent No. 7,056,215, which issued on June 6, 2006. On December 15, 2006, Aristocrat filed an amended complaint, adding allegations that IGT willfully infringed US Patent No. 7,108,603, which issued on September 19, 2006. The IGT products named in the original and amended complaints were the Fort Knox® mystery progressive slot machines. On June 13, 2007, the US District Court for the Northern District of California entered an order granting summary judgment in favor of IGT declaring both patents invalid. The US Court of Appeals for the Federal Circuit reversed this decision on September 22, 2008. IGT's request for a rehearing was denied on November 17, 2008.

This case recommenced in the District Court and on May 13, 2010, the District Court entered an order granting IGT's motion for summary judgment of non-infringement. Aristocrat is appealing this judgment. Proceedings on IGT's claim that Aristocrat committed inequitable conduct in reviving a related patent application are continuing in the District Court. A trial was held the week of April 4, 2011 on the inequitable conduct issues. These claims were dismissed on May 6, 2011.

2010 Central Federal District Court of California

On November 15, 2010, IGT filed a complaint in the US District Court for the Central District of California against Aristocrat Leisure Limited of Australia and its US affiliate Aristocrat Technologies, Inc. (collectively "Aristocrat") seeking a preliminary and permanent injunction and damages for the infringement of US Patent No. 6,620,047 (the "'047 patent") and US Patent No. RE 39,370 (the "'370 patent") in violation of 35 U.S.C. section 271.

On January 28, 2011, IGT asserted an additional claim against Aristocrat for infringement of US Patent No 7,063,615 (the "'615 patent") seeking similar relief. IGT asserts that Aristocrat infringes on the '047, the '370, and the '615 patents in connection with the sale and distribution of gaming devices, including the Viridian WS slot machine, without authorization or license from IGT. Aristocrat has denied infringement, filed various affirmative defenses and counterclaimed for patent invalidity. A pretrial schedule has been set and the case is proceeding. Trial is set for June 12, 2012.

Rice (formerly Piercey) v Atlantic Lotteries

In May 2010, Atlantic Lotteries commenced an action against International Game Technology, VLC, Inc. and IGT-Canada, wholly-owned subsidiaries of International Game Technology, and other manufacturers of video lottery machines in the Supreme Court of New Foundland and Labrador seeking indemnification for any damages that may be awarded against Atlantic Lotteries in a class action suit also filed in the Supreme Court of New Foundland and Labrador. A motion for class certification has been filed by plaintiff but has not yet scheduled for argument. In the interim, plaintiff has filed a motion to preclude the third party defendants from participating on the motion to certify. By a decision and order, dated April 28, 2011, the Court denied plaintiff's motion to preclude third party defendants from participating on the motion to certify.

Shareholder Actions

Securities Class Action

On July 30, 2009, International Brotherhood of Electrical Workers Local 697 filed a putative securities fraud class action in the US District Court for the District of Nevada, alleging causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act against IGT and certain of its current and former officers and directors. The complaint alleges that between November 1, 2007 and October 30, 2008, the defendants inflated IGT's stock price through a series of materially false and misleading statements or omissions regarding IGT's business, operations, and prospects. In April 2010, plaintiffs filed an amended complaint. In March 2011, defendants' motion to dismiss that complaint was granted in part and denied in part. The Court found that the allegations concerning statements about the seasonality of game play levels and announcements of projects with Harrah's and City Center were sufficient to state a claim. Plaintiffs did not state a claim based on the remaining statements about earnings, operating expense, or forward-looking statements about play levels and server-based technology. Discovery is proceeding.

Derivative Actions

Between August 20, 2009 and September 17, 2009, the Company was nominally sued in a series of derivative lawsuits filed in the US District Court for the District of Nevada, captioned Fosbre v. Matthews et al., Case No. 3:09-cv-00467; Calamore v. Matthews et al., Case No. 3:09-cv-00489; Israni v. Bittman, et al., Case No. 3:09-cv-00536; and Aronson v. Matthews et al., Case No. 3:09-cv-00542. Plaintiffs purportedly brought their respective actions on behalf of the Company. The complaints asserted claims against various current and former officers and directors of the Company, for breaches of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and contribution and indemnification. The complaints sought an unspecified amount of damages and allege similar facts as the securities class action lawsuit.

The complaints additionally alleged that certain individual defendants engaged in insider trading and that the director defendants improperly handled Thomas J. Matthews' resignation as Chief Executive Officer of the Company. The actions were consolidated and subsequently a consolidated derivative complaint was filed in December 2009. Defendants moved to dismiss that complaint. On July 6, 2010, the Court granted the defendants' motion to dismiss, with leave to amend. After plaintiffs elected not to amend, the court entered judgment in favor of the defendants. The plaintiff in Israni v. Bittman, et al. has appealed.

On September 30, 2009, the Company was nominally sued in a derivative lawsuit filed in the Second Judicial District Court of the State of Nevada, County of Washoe. Plaintiff purportedly filed the action on behalf of the Company. The lawsuit, captioned Kurz et al. v. Hart et al., Case No. cv-0-9-02982, asserted claims against various current and former officers and directors for breach of fiduciary duties and unjust enrichment. The complaint generally made the same allegations as the federal derivative complaints and seeks an unspecified amount of damages. The action was dismissed by stipulation of the parties.

In a letter dated October 7, 2009 to the Company's Board of Directors, a shareholder made factual allegations similar to those set forth in the above derivative and securities class actions and demanded that the Board investigate, address and remedy the harm allegedly inflicted on IGT. In particular, the letter alleged that certain officers and directors grossly mismanaged the Company by overspending in the area of R&D of server-based game technology despite a looming recession to which the Company was particularly vulnerable; by making or allowing false and misleading statements regarding the Company's growth prospects and earnings guidance; and by wasting corporate assets by causing the Company to repurchase Company stock at inflated prices. The letter asserts that this alleged conduct resulted in breaches of fiduciary duties and violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5. On July 9, 2010, the shareholder filed a derivative lawsuit filed in the US District Court for the District of Nevada, captioned Sprando v. Hart, et al., Case No. 3:10-cv-00415 and asserting claims similar to those described above. No claims were asserted against the Company, which is a nominal defendant. Motions to dismiss have been filed. On July 25, 2011, the Court granted the defendants' motions to dismiss with prejudice.

In February 2011, another shareholder sent a demand letter to the Company's Board of Directors requesting that the Board investigate, address and remedy allegations similar to those set forth in the derivative actions described above. On April 8, 2011, the Company was nominally sued in a derivative complaint filed in the US District Court for the District of Nevada, captioned Arduini v. Hart, et al., Case No. 3:11-cv-00255. The claims and allegations in this complaint are similar to those asserted in the securities class action and derivative actions described above. A motion to dismiss has been filed.

ERISA Actions

On October 2, 2009, two putative class action lawsuits were filed on behalf of participants in the Company's employee pension plans, naming as defendants the Company, the IGT Profit Sharing Plan Committee, and several current and former officers and directors. The actions, filed in the US District Court for the District of Nevada, are captioned Carr et al. v. International Game Technology et al., Case No. 3:09-cv-00584, and Jordan et al. v. International Game Technology et al., Case No. 3:09-cv-00585. The actions were consolidated. The consolidated complaint (which seeks unspecified damages) asserts claims under the Employee Retirement Income Security Act, 29 U.S.C §§ 1109 and 1132.

The consolidated complaint is based on allegations similar to those in the securities and derivative lawsuits described above, and further alleges that the defendants breached fiduciary duties to Plan Participants by failing to disclose material facts to Plan Participants, failing to exercise their fiduciary duties solely in the interest of the Participants, failing to properly manage Plan assets, and permitting Participants to elect to invest in Company stock. In March 2011, defendants' motion to dismiss the consolidated complaint was granted in part and denied in part. Discovery is proceeding.

Environmental Matters

CCSC, a casino operation sold by IGT in April 2003, is located in an area that has been designated by the EPA as an active Superfund site because of contamination from historic mining activity in the area. In order for Anchor Coin, an entity IGT acquired in December 2001, to develop the CCSC site, it voluntarily entered into an administrative order of consent with the EPA to conduct soil removal and analysis (a requirement imposed on similarly situated property developers within the region) in conjunction with re-routing mine drainage. The work and obligations contemplated by the agreement were completed by Anchor in June 1998, and the EPA subsequently issued a termination of the order.

The EPA, together with other property developers excluding CCSC, continues remediation activities at the site. While we believe our remediation obligations are complete, it is possible that additional contamination may be identified and we could be obligated to participate in remediation efforts. Under accounting guidance for environmental remediation liabilities, we determined the incurrence of additional remediation costs is neither probable nor reasonably estimable and no liability has been recorded.

OSHA / Wrongful Termination Matter

On July 8, 2004, two former employees filed a complaint with the US Department of Labor, OSHA alleging retaliatory termination in violation of the Sarbanes-Oxley Act of 2002. The former employees allege that they were terminated in retaliation for questioning whether Anchor and its executives failed to properly disclose information allegedly affecting the value of Anchor's patents in connection with IGT's acquisition of Anchor in December 2001. The former employees also allege that the acquired patents were overvalued on the financial statements of IGT. Outside counsel, retained by an independent committee of our Board of Directors, reviewed the allegations and found them to be entirely without merit.

On November 10, 2004, the employees withdrew their complaint filed with OSHA and filed a notice of intent to file a complaint in federal court. On December 1, 2004, a complaint was filed under seal in the US District Court for the District of Nevada, based on the same facts set forth above regarding their OSHA complaint. IGT filed a motion for summary judgment as to all claims in plaintiffs' complaint. On June 14, 2007, the US District Court for the District of Nevada entered an order granting summary judgment in favor of IGT as to plaintiffs' Sarbanes-Oxley whistle-blower claims and dismissed their state law claims without prejudice. Plaintiffs' motion for reconsideration of the District Court's decision was denied.

Plaintiffs appealed to the US Court of Appeals for the Ninth Circuit. Oral argument was heard on March 12, 2009, and on August 3, 2009, the Ninth Circuit reversed the District Court's decision. IGT's motion for summary judgment on plaintiffs' state law claims was argued on October 22, 2009 and granted in IGT's favor on December 8, 2009. On April 13, 2010, the District Court granted IGT's motion to strike the plaintiffs' jury demand and granted IGT's motion to retax costs and fees. It denied plaintiffs' motion for certification and/or reconsideration.

On February 8, 2011, a jury verdict was entered in favor of the plaintiffs as to their Sarbanes-Oxley claims and awarded damages in an amount equal to approximately $2.2 million, which we have accrued. On March 9, 2011, IGT filed its Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial or for Remittitur. On May 24, 2011, the Court denied these motions. IGT filed its notice of appeal to the US Court of Appeals for the Ninth Circuit on June 21, 2011.

In conjunction with the Anchor acquisition purchase price allocation as of December 31, 2001, IGT used the relief of royalty valuation methodology to estimate the fair value of the patents at $164.4 million. The carrying value of the patents at June 30, 2011 totaled $31.0 million.

Arrangements with Off-Balance Sheet Risks

In the normal course of business, we are party to financial instruments with off-balance sheet risk, such as performance bonds not reflected in our balance sheet. We do not expect any material losses to result from these arrangements and are not dependent on off-balance sheet financing arrangements to fund our operations.

Performance Bonds

Performance bonds outstanding related to certain gaming operations equipment totaled $12.1 million at June 30, 2011. We are liable to reimburse the bond issuer in the event of exercise due to nonperformance.

Letters of Credit

Outstanding letters of credit issued under our domestic credit facility to ensure payment to certain vendors and governmental agencies totaled $9.2 million at June 30, 2011.

IGT Licensor Arrangements

Our sales agreements that include software and IP licensing arrangements may require IGT to indemnify the third-party licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark infringement, or trade secret misappropriation. Should such a claim occur, we could be required to make payments to the licensee for any liabilities or damages incurred. Historically, we have not incurred any significant settlement costs due to infringement claims. As we consider the likelihood of incurring future costs to be remote, no liability has been recorded.

Self-Insurance

We are self-insured for various levels of workers' compensation, directors' and officers' liability, and electronic errors and omissions liability, as well as employee medical, dental, prescription drug, and disability coverage. We purchase stop loss coverage to protect against unexpected claims. Accrued insurance claims and reserves include estimated settlements for known claims, and actuarial estimates for claims incurred but not reported.

State and Federal Taxes

We are subject to sales, use, income, gaming and other tax audits and administrative proceedings in various US federal, state, local, and foreign jurisdictions. While we believe we have properly reported our tax liabilities in each jurisdiction, we can give no assurance that taxing authorities will not propose adjustments that increase our tax liabilities.

Product Warranties

The majority of our products are generally covered by a warranty for periods ranging from 90 days to one year. We estimate accrued warranty costs in the table below based on historical trends in product failure rates and expected costs to provide warranty services.

Nine Months Ended June 30, (In millions)		2011			2010	
Balance at beginning of year	$	9.3		$	7.9	
Reduction for payments made		(5.1	)		(7.9	)
Accrual for new warranties issued		6.5			6.7	
Adjustments for pre-existing warranties		(2.8	)		(0.8	)
Balance at end of period	$	7.9		$	5.9	

12. INCOME TAXES

Our provision for income taxes is based on estimated effective annual income tax rates as well as the impact of discrete items, if any, occurring during the quarter. The provision differs from income taxes currently payable because certain items of income and expense are recognized in different periods for financial statement purposes than for tax return purposes. We reduce deferred tax assets by a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Our effective tax rate for the nine months ended June 30, 2011 increased to 29.4% from 21.8% for the same prior year period. The prior year effective tax rate was positively impacted by the settlement of our IRS audit for 2002 through 2005. The 2011 effective tax rate was positively impacted by the decrease in UTBs, interest, and penalties as a result of a lapse in the statute of limitations for 2007, an increase in the manufacturing deduction, and the retroactive reinstatement of the R&D tax credit.

At June 30, 2011, our gross UTBs totaled $105.8 million, excluding related accrued interest and penalties of $20.3 million. At June 30, 2011, $67.5 million of our UTBs, including related accrued interest and penalties, would affect our effective tax rate if recognized. During the nine months ended June 30, 2011, our UTBs increased $22.0 million and related interest and penalties decreased $2.4 million. Our UTBs increased $5.8 million as a result of tax positions taken during a prior period and $24.2 million due to tax positions taken in the current period, and decreased $8.0 million as a result of a lapse in the statute of limitations for 2007.

We are currently under audit by the IRS for amended returns filed for 1999, 2006 and 2007, as well as our originally filed return for 2009. We are also subject to examination in various state and foreign jurisdictions. We believe we have recorded all appropriate provisions for outstanding issues for all jurisdictions and open years. However, we can give no assurance that taxing authorities will not propose adjustments that increase our tax liabilities.

13. EMPLOYEE BENEFIT PLANS

Share-based Compensation

The amount, frequency, and terms of share-based awards may vary based on competitive practices, operating results, and government regulations. SIP grants generally vest over three to five years, either in ratable annual increments or 100% at the end of the vesting period. New shares of IGT common stock are issued upon exercises of stock options, vesting of restricted share units, or restricted share grants. Our current practice is generally to grant restricted share awards in the form of units without dividends. Forfeitures occur primarily when employment is terminated prior to vesting.

At June 30, 2011, 28.7 million shares were available for grant under the IGT SIP. Each restricted share or unit counts as two shares against this allowance beginning January 11, 2011. Unrecognized costs related to share-based awards outstanding at June 30, 2011 totaled $79.1 million and are expected to be recognized over a weighted average period of 1.8 years.

SIP Activity As Of And For The Nine Months Ended June 30, 2011

Options	Shares (thousands)	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Outstanding at beginning of fiscal year	16,843	$ 21.38		
Granted	4,754	15.74		
Exercised	(1,594)	14.49		
Forfeited	(1,485)	17.16		
Expired	(2,557)	32.77		
Outstanding at end of period	15,961	$ 18.95	6.7	$ 30.9
Vested and expected to vest	15,572	$ 19.02	6.6	$ 30.1
Exercisable at end of period	6,730	$ 22.69	4.6	$ 9.9

Restricted Shares/Units	Shares (thousands)	Weighted Average Grant Date Fair Value (per share)	Weighted Average Remaining Vesting Period (years)	Aggregate Intrinsic Value (millions)
Outstanding at beginning of fiscal year	2,368	$ 18.88		
Granted	2,592	14.19		
Vested	(845)	21.75		
Forfeited	(539)	15.96		
Outstanding at end of period	3,576	$ 15.27	1.8	$ 64.3
Expected to vest	3,385	$ 15.30	1.9	$ 60.9

14. EARNINGS PER SHARE

	Quarters Ended June 30, 2011	Quarters Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
(In millions, except per share amounts)				
Income from continuing operations available to common shares (1)	$ 91.8	$ 96.3	$ 232.3	$ 196.5
Basic weighted average shares outstanding	299.2	297.0	298.4	296.0
Dilutive effect of non-participating share-based awards	1.5	1.9	1.5	2.1
Diluted weighted average common shares outstanding	300.7	298.9	299.9	298.1
Basic earnings per share from continuing operations	$ 0.31	$ 0.32	$ 0.78	$ 0.66
Diluted earnings per share from continuing operations	$ 0.30	$ 0.32	$ 0.77	$ 0.66
Weighted average shares excluded from diluted EPS because the effect would be anti-dilutive:				
Share-based awards	14.8	9.5	15.4	10.2
Notes	42.6	42.6	42.6	42.6
Note hedges	(42.6)	(42.6)	(42.6)	(42.6)
Warrants	42.6	42.6	42.6	42.6

(1) Income from continuing operations available to participating securities was not significant

15. OTHER COMPREHENSIVE INCOME

	Quarters Ended June 30,	NIne Months Ended June 30,

	2011	2010	2011	2010
(In millions)				
Net income	$ 86.9	$ 92.1	$ 230.2	$ 166.1
Currency translation adjustments	(0.4)	(9.8)	9.1	(12.1)
Investment unrealized gains (losses)	(0.4)	(4.5)	0.1	4.9
Comprehensive income	$ 86.1	$ 77.8	$ 239.4	$ 158.9

16. BUSINESS SEGMENTS

We view our business in the following two operating segments:

- North America includes our operations associated with customers located in the US and Canada
- International includes our operations associated with customers located in all other jurisdictions

Certain income and expenses related to company-wide initiatives are managed at the corporate level and not allocated to any operating segment. We do not recognize inter-company revenues or expenses upon the transfer of gaming products between operating segments. Segment accounting policies are consistent with those of our consolidated financial statements and segment profit is measured on the basis of operating income.

Our business segments are designed to allocate resources within a framework of management responsibility. Operating costs from one segment may benefit other segments. Realignment of our business development and administrative functions, as well as discontinued operations resulted in changes to segment allocations. Elements pertaining to prior periods' operating income presented have been recast accordingly.

Business Segment Information

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
(In millions)				
NORTH AMERICA				
Revenues	$ 364.0	$ 355.0	$ 1,083.7	$ 1,088.3
Gaming operations	228.1	230.5	679.0	704.8
Product sales	135.9	124.5	404.7	383.5
Gross profit	214.2	196.6	640.0	615.2
Gaming operations	138.9	127.1	414.2	411.9
Product sales	75.3	69.5	225.8	203.3
Operating income	122.4	98.2	357.0	268.6
INTERNATIONAL				
Revenues	$ 125.0	$ 119.9	$ 333.5	$ 354.7
Gaming operations	39.3	38.4	111.1	108.5
Product sales	85.7	81.5	222.4	246.2
Gross profit	74.4	71.4	200.6	205.0
Gaming operations	25.7	28.4	76.7	80.2
Product sales	48.7	43.0	123.9	124.8
Operating income	43.6	43.7	105.3	122.8
CORPORATE (unallocated)				
Operating expenses	$ (25.2)	$ (21.8)	$ (73.2)	$ (64.9)
CONSOLIDATED				
Revenues	$ 489.0	$ 474.9	$ 1,417.2	$ 1,443.0
Gaming operations	267.4	268.9	790.1	813.3

Product sales	221.6	206.0	627.1	629.7
Gross profit	288.6	268.0	840.6	820.2
Gaming operations	164.6	155.5	490.9	492.1
Product sales	124.0	112.5	349.7	328.1
Operating income	140.8	120.1	389.1	326.5

17. BUSINESS ACQUISITION

Entraction Holding AB

In June 2011, IGT acquired 97.6% of the outstanding shares of Entraction Holding AB, a supplier of online gaming products and services, for total cash consideration of approximately $108.2 million. IGT has initiated proceedings to acquire the remaining 2.4% shares of Entraction and expects to complete this process in the next six months. Pro forma financial information has not been provided, as this acquisition is not material to our consolidated financial statements. Merger and acquisition costs of $2.9 million were included in SG&A for the quarter ended June 30, 2011. Upon closing, Entraction will be integrated into our International segment and results of operations will be recorded on a one-month lag.

Established in 2000 and based in Stockholm, Sweden, Entraction operates one of the world's largest, legal online poker networks. This acquisition is expected to advance our position in legalized interactive gaming markets and strengthen our product portfolio to include all major online gaming specialties—poker, bingo, casino, and sports betting.

The following allocation of the purchase consideration, based on estimated fair values at June 30, 2011, is provisional pending completion of the business valuations:

- tangible assets of $25.7 million, including cash of $2.7 million
- identifiable intangible assets of $19.8 million
- goodwill of $87.9 million related to non-separable intangibles and not deductible for tax purposes
- liabilities of $22.5 million
- noncontrolling interest of $2.7 million

18. DISCONTINUED OPERATIONS

UK Barcrest Group

On April 26, 2011, related to changes in our core business strategy, we executed an agreement to sell our UK Barcrest Group to Scientific Games Corporation for cash consideration of approximately $53.0 million at closing, subject to a working capital adjustment. The agreement also includes contingent consideration of approximately $9.0 million related to existing customer arrangements and requires IGT to indemnify Scientific Games in specified circumstances. This transaction is expected to close during our 2011 fourth quarter, conditioned on regulatory approvals and other customary closing conditions, including the receipt of third-party consents.

The Barcrest Group results of operations were classified in discontinued operations for all periods presented. At June 30, 2011, its assets and liabilities held for sale were reflected in discontinued operations at fair value and we recorded an estimated loss on sale of $10.7 million ($4.4 million after-tax), including $2.4 million of employee stock award acceleration and bonuses. The assets of the Barcrest Group included $2.3 million of allocated goodwill and $0.4 million of other intangible assets. Accumulated currency translation adjustments of $4.7 million related to the Barcrest Group were included in accumulated other comprehensive income at June 30, 2011.

Japan and DigiDeal

Discontinued operations also included the closure of our international operations in Japan and the divestiture of our equity interest in DigiDeal during 2010. Assets and liabilities of discontinued operations at September 30, 2010 related only to Japan. During the 2011 third quarter, income from discontinued operations included $1.4 million of gain realized on the sale of a Japan industry group investment. The resolution of an outstanding third party contractual dispute related to our Japan operations is still pending.

Summary of Results in Discontinued Operations

	Quarters Ended June 30,		Nine Months Ended June 30,	
(In millions)	2011	2010	2011	2010
Revenues	$ 16.1	$ 15.3	$ 45.0	$ 50.8
Income (loss) before tax	$ 0.4	$ (2.7)	$ 4.4	$ (30.1)
Income tax benefit (provision)	(0.9)	(1.5)	(2.1)	(0.3)
Income (loss) from discontinued operations, net of tax	(0.5)	(4.2)	2.3	(30.4)
Loss on divestiture before tax	(10.7)	-	(10.7)	-
Income tax benefit	6.3	-	6.3	-
Loss on divestiture, net of tax	(4.4)	-	(4.4)	-
Loss from discontinued operations, net of tax	$ (4.9)	$ (4.2)	$ (2.1)	$ (30.4)

Summary of Assets and Liabilities of Discontinued Operations

(In millions)	June 30, 2011	September 30, 2010
Current assets	$ 33.0	$ 0.2
Non-current assets	25.4	0.1
Total assets of discontinued operations	$ 58.4	$ 0.3
Total current liabilities of discontinued operations	$ 19.3	$ 5.5

Item 2. 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 the current business environment from the perspective of our company’s management. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2010, as well as the accompanying Consolidated Financial Statements and Notes included in Item 1 of this Form 10-Q.

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
- references to EPS are on a diluted basis

- Note refers to the Notes to our Consolidated Financial Statements in Item 1 of this report
- dollar amounts are presented pretax in millions, except EPS
- references to years relate to our fiscal years ending September 30
- current refers to the fiscal periods (third quarter and nine months) ended June 30, 2011
- discussion and analysis relates to results for continuing operations of the current fiscal periods as compared with the prior year fiscal periods

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

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 leadership position in the gaming industry
- the advantages offered to customers by our anticipated products and product features
- gaming growth, expansion, and new market opportunities
- mergers, acquisitions and divestitures
- research and development activities, including anticipated benefits from such activities
- fluctuations in future gross margins and tax rates
- increasing product sales or machine placements
- legislative or regulatory developments and related market opportunities
- available capital resources to fund future operating requirements, capital expenditures, payment obligations, acquisitions, and share repurchases
- losses from off-balance sheet arrangements
- financial returns to shareholders related to management of our costs
- the impact of recently adopted accounting pronouncements
- the outcome and expense of litigation
- anticipated increased revenue yields and operating margin if general economic conditions improve

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. See Part 2, Item 1A, Risk Factors, in this report for a discussion of these and other risks and uncertainties. You should not assume at any point in the future that the forward looking statements in this report are still valid. We do not intend, and undertake no obligation, to update our forward looking statements to reflect future events or circumstances.

OVERVIEW

International Game Technology is a global company specializing in the design, manufacture, and marketing of electronic gaming equipment and systems products. We are a leading supplier of gaming products in substantially all legal jurisdictions worldwide and provide a diverse offering of quality products and services at competitive prices, designed to increase the potential for gaming operator profits by enhancing the player's experience.

We manage our operations in two geographic business segments, North America and International, with certain unallocated income and expenses managed at the corporate level. See BUSINESS SEGMENT RESULTS below and Note 16 for additional business segment information.

The results for our third quarter ended June 30, 2011 reflect product sales and gaming operations improvement, contributing to higher overall revenues, gross profit, and operating income compared to the same quarter last year. Decreased revenues for the first nine months of 2011 were negatively affected by intensified competition, fewer new casino openings or expansions, and conservative customer spending in a lagging economic recovery. Improved operating income for the nine months was primarily the result of prior year impairment charges related to the Alabama charitable bingo market closures and increased gross profit in product sales. For a more in-depth analysis of our current results, see CONSOLIDATED RESULTS directly following this OVERVIEW.

We continue to partner with our customers in an effort to deliver stronger relationships and innovative gaming products and services. While the future remains challenged and visibility continues to be limited, we are focused on leveraging our diverse revenue base and making prudent investments with the goal of producing consistent financial results over the long term. Overall, the company continues to focus on the following key objectives:

Revenue Improvement —

Although consolidated gaming operations revenues decreased 1% for the quarter on a lower installed base, our yields (revenue per unit per day) improved overall. Yield performance improvement was attributable to higher play levels, most significant in our MegaJackpot® brands, and an increasing mix of newer, higher-yield game titles. Our installed base decreased 2% compared to last year, largely related to charitable bingo facility closures in Alabama and lease game conversions sold in Mexico.

We continued to address replacement sales with promotional customer incentives, new game titles, and versatile platforms, which helped to increase our ship-share during the 2011 third quarter. Efficiencies gained in our manufacturing processes through simplification and standardization helped to offset these promotional costs and improve our product sales gross profit.

Released in our 2011 second quarter, our Universal Slant-top platform is a multi-game configurable machine that is convertible into video poker, stepper, or multi-layer display video reels. This platform provides increased serviceability and functionality with an advanced design reducing time-to-market by as much as 50%. The versatile convertible platform enables the quick-change of game titles right on the casino floor.

A higher contribution from non-machine revenues during the first nine months of 2011 was also favorable to our product sales gross margin. To date, we have installed or contracted to install our sbX® integrated gaming solutions on six continents around the world. At our Global Systems User Conference in June 2011, we announced our open standards Universal Game Adaptor, which provides a cost-efficient solution for adding floor-wide service window functionality and an evolutionary path to a full scale game-to-system floor. We believe our open network strategy will drive the creation of additional sbX® application utilities that differentiate the next-generation slot floor and compel game sales.

Increase profitability and innovation in our gaming operations line —

We focus our investments in innovation to strengthen our portfolio of products and services. We are responding to continued competitive pressure and conservative customer spending in a lagging economic recovery with aggressive product innovation. As part of the ongoing revitalization of our gaming operations installed base, we are increasing the velocity of game releases, creating common platforms easily upgradable for new games, and increasing our content offerings around popular culture themes and brands. Additionally, with the implementation of process improvements, development time and per-game production costs have been reduced.

Efficiency Improvement —

By leveraging our broad portfolio of products and services across all regions and expanding the use of standard platforms to further leverage our scale, we are working to optimize efficiency across the company. Consolidated gross margin improved over the prior year periods, reflecting our improved business mix and operating leverage, as well as continued benefits from productivity initiatives.

Part of our broader global strategy includes shifting business mix and exiting non-core operations while increasing our presence in higher-value areas. Consistent with our focus on leveraging investments into potential higher returns, we executed an agreement on April 26, 2011 to sell our UK Barcrest Group to Scientific Games Corporation for approximately $53.0 million plus contingent consideration based on existing customer arrangements. These proceeds will be reinvested into growth opportunities that we anticipate will provide greater leverage and stronger returns, such as augmenting our investment in R&D and our global customer base. See Note 18 for additional information about the sale and discontinued operations of the Barcrest Group, as well as discontinued operations related to Japan and DigiDeal operations discontinued during 2010.

On April 14, 2011, we modified our revolving domestic credit facility with a syndicate of banks at more favorable rates and less restrictive covenants as discussed further below under LIQUIDITY AND CAPITAL RESOURCES—Credit Facilities and Indebtedness. With no outstanding balance on our domestic credit facilities at June 30, 2011, we have more flexibility to invest in strategic opportunities with higher returns. These opportunities could potentially include increasing our investment in gaming operations, augmenting our interactive product offerings, expanding our studio development capabilities, and enhancing our international distribution.

Increasing International Presence and Market Penetration —

As we continue to monitor potential gaming growth, we are cautiously optimistic about future opportunities over the next few years, specifically the International markets of Latin America and Asia, as well as North America markets in Illinois, Ohio, Maryland, Massachusetts, and Canada. Several US state legislatures are expected to consider legislation to legalize or expand some form of gaming as a means of addressing significant budget shortfalls in 2011 and 2012. Markets outside of the US are expected to grow faster than in the US and we are localizing our sales presence in these markets, as we increase scalability and prepare for new opportunities.

Accelerate Interactive Growth —

As a number of jurisdictions around the world consider the legalization of online gaming, our goal is to become a major supplier of interactive online gaming products and services. We view our interactive product line as a potential source of sustainable growth. We have a long history and strong base of gaming experience from which to build and become a global, full-service partner in the interactive online gaming marketplace.

In anticipation of new regulated online and mobile market opportunities, we are expanding our interactive gaming infrastructure in the US and relocated our San Francisco interactive headquarters to a larger facility in March 2011. We are also aligning our development efforts to capitalize on a growing trend toward converged infrastructure products that integrate land-based casino games with online games.

During the 2011 third quarter, we invested $108.2 million in the acquisition of Entraction Holding AB to advance our position in legalized interactive gaming markets and strengthen our product portfolio to include all major online specialties—poker, bingo, casino, and sports betting. Established in 2000 and based in Stockholm, Sweden, Entraction is a supplier of online gaming products and services with one of the world’s largest legal online poker networks. See Note 17.

CONSOLIDATED RESULTS – A Year Over Year Comparative Analysis

	Quarters Ended June 30, 2011	Quarters Ended June 30, 2010	Favorable (Unfavorable) Amount	%	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010	Favorable (Unfavorable) Amount	%
Revenues	$ 489.0	$ 474.9	$ 14.1	3 %	$ 1,417.2	$ 1,443.0	$ (25.8)	-2 %
Gaming operations	267.4	268.9	(1.5)	-1 %	790.1	813.3	(23.2)	-3 %
Product sales	221.6	206.0	15.6	8 %	627.1	629.7	(2.6)	-
Machines	136.7	117.9	18.8	16 %	386.4	395.2	(8.8)	-2 %
Non-machine	84.9	88.1	(3.2)	-4 %	240.7	234.5	6.2	3 %
Gross profit	$ 288.6	$ 268.0	$ 20.6	8 %	$ 840.6	$ 820.2	$ 20.4	2 %
Gaming operations	164.6	155.5	9.1	6 %	490.9	492.1	(1.2)	-
Product sales	124.0	112.5	11.5	10 %	349.7	328.1	21.6	7 %
Gross margin	59 %	56 %	3 pp	5 %	59 %	57 %	2 pp	4 %
Gaming operations	62 %	58 %	4 pp	7 %	62 %	61 %	1 pp	2 %
Product sales	56 %	55 %	1 pp	2 %	56 %	52 %	4 pp	8 %
Units								
Gaming operations installed base	53,300	54,600	(1,300)	-2 %	53,300	54,600	(1,300)	-2 %
Fixed	9,800	9,200	600	7 %	9,800	9,200	600	7 %
Variable	43,500	45,400	(1,900)	-4 %	43,500	45,400	(1,900)	-4 %
Product sales shipped (1)	8,300	7,400	900	12 %	24,800	24,000	800	3 %
New	2,000	2,500	(500)	-20 %	8,000	8,800	(800)	-9 %
Replacement	6,300	4,900	1,400	29 %	16,800	15,200	1,600	11 %
Product sales recognized (2)	8,900	8,300	600	7 %	26,200	26,500	(300)	-1 %
Operating income	$ 140.8	$ 120.1	$ 20.7	17 %	$ 389.1	$ 326.5	$ 62.6	19 %
Operating margin	29 %	25 %	4 pp	16 %	27 %	23 %	4 pp	17 %
Income from continuing operations	$ 91.8	$ 96.3	$ (4.5)	-5 %	$ 232.3	$ 196.5	$ 35.8	18 %
Discontinued operations (3)	(4.9)	(4.2)	(0.7)	*	(2.1)	(30.4)	28.3	*

Net income	86.9	92.1	(5.2)	-6 %	230.2	166.1	64.1	39 %
EPS								
Continuing operations	$ 0.30	$ 0.32	$ (0.02)	-6 %	$ 0.77	$ 0.66	$ 0.11	17 %
Discontinued operations	(0.01)	(0.01)	-	*	-	(0.11)	0.11	*
Net income	$ 0.29	$ 0.31	$ (0.02)	-6 %	$ 0.77	$ 0.55	$ 0.22	40 %

(1) includes units where revenues deferred; (2) correlates with revenues recognized; (3) See Note 18

Three months ended June 30, 2011 compared with three months ended June 30, 2010

Operating income increased primarily due to improvement in both product sales and gaming operations. Favorable changes in foreign exchange rates increased current quarter revenues by approximately $9.4 million. Income from continuing operations decreased primarily due to more favorable discrete income tax items in the prior year quarter.

Nine months ended June 30, 2011 compared with nine months ended June 30, 2010

Improved operating income was primarily the result of prior year Alabama impairment charges (see Operating Expenses section below) and gross profit improvement in product sales. Revenue declines were attributable to intensified competition, fewer new casino openings, and conservative customer spending in a lagging economic recovery. Revenue declines were partially offset by favorable foreign exchange rates, which increased revenues by approximately $15.1 million. Income from continuing operations was negatively impacted by higher tax provisions, partially offset by lower interest costs and gain from the sale of our CLS equity investment.

Discontinued operations (See Note 18)

As part of our strategic realignment of core objectives, we entered into an agreement to sell our UK Barcrest Group to Scientific Games in April 2011. Subject to regulatory approvals and other customary closing conditions, the sale is expected to close in our 2011 fourth quarter for cash proceeds of approximately $53.0 million (subject to a working capital adjustment) plus contingencies based on existing customer arrangements. During the 2011 third quarter, we recorded an estimated loss on the sale of $10.7 million pre-tax (or $4.4 million after-tax) and classified the Barcrest Group results in discontinued operations for all periods presented.

Consolidated Gaming Operations

Three months ended June 30, 2011 compared with three months ended June 30, 2010

Gaming operations revenues declined with our lower installed base, partially offset by performance improvement in our MegaJackpot® brands. The lower installed base was largely due to the removal of Alabama electronic charitable bingo units and lease game conversions sold in Mexico. Increases to our International base partially offset decline in North America. Yield improvement of 3%, most significant in our WAP base, was attributable to increased newer game titles and an overall shift toward higher-yield units, in part due to removals of lower-yield games in Alabama.

Gross profit and margin increase was attributable to lower expenses, including jackpot expense down $9.0 million partially due to favorable interest movement, and favorable changes in the installed base mix. Gross margin was also favorably impacted by improved yields.

Nine months ended June 30, 2011 compared with nine months ended June 30, 2010

Gaming operations revenues and gross profit decreased with our lower installed base, partially offset by yield improvement in our MegaJackpot® brands and CDS base. Gross profit and margin benefited from favorable expenses, including lower jackpot expense (down $10.8 million partially due to favorable interest movement), as well as reduced depreciation, and tax and license fees (in part due to the removal of Alabama units). Gross margin improvement was also attributable to higher yields from increased play levels, as well as the removal of lower-yield Alabama and Mexico units.

Consolidated Product Sales

Three months ended June 30, 2011 compared with three months ended June 30, 2010

Product sales revenues increased primarily due to higher machine units recognized in both North America and International segments and favorable changes in foreign currency exchange rates. Gross profit and margin further improved primarily due to favorable jurisdiction and product mix, partially offset by increased parts and royalty costs.

Nine months ended June 30, 2011 compared with nine months ended June 30, 2010

Product sales revenues decreased primarily on lower International sales, partially offset by favorable changes in foreign exchange rates. Gross profit and margin improved primarily due to a favorable mix of higher-margin non-machine sales and lower discounts largely related to the prior year promotions.

Consolidated Operating Expenses

	Quarters Ended June 30,		Favorable (Unfavorable)		Nine Months Ended June 30,		Favorable (Unfavorable)	
	2011	2010	Amount	%	2011	2010	Amount	%
Selling, general and administrative	$ 82.5	$ 81.5	$ (1.0)	-1 %	$ 253.8	$ 245.4	$ (8.4)	-3 %
Research and development	48.5	48.4	(0.1)	-	146.1	139.4	(6.7)	-5 %
Depreciation and amortization	16.8	18.0	1.2	7 %	51.6	55.8	4.2	8 %
Impairment	-	-	-	*	-	53.1	53.1	*
Total operating expenses	$ 147.8	$ 147.9	$ 0.1	-	$ 451.5	$ 493.7	$ 42.2	9 %
Percent of revenues	30 %	31 %			32 %	34 %		

Three months ended June 30, 2011 compared with three months ended June 30, 2010

Third quarter operating expenses were relatively flat, including reduced bad debt provisions (down $4.0 million) and lower depreciation and amortization, nearly offset by increased costs for development initiatives related to our interactive product line of $2.0 million and Latin America operations of $1.9 million. Other cost efficiencies maintained from our previous restructuring were partially offset by higher variable compensation.

Nine months ended June 30, 2011 compared with nine months ended June 30, 2010

Operating expenses decreased primarily attributable to prior year impairment related to Alabama charitable bingo closures and lower depreciation. These decreases were partially offset by increased costs for development initiatives related to our interactive product line of $8.4 million and Latin America operations of $3.6 million. Other cost efficiencies maintained from our previous restructuring were partially offset by higher variable compensation.

Consolidated Other Income (Expense)

	Quarters Ended June 30,		Favorable (Unfavorable)		Nine Months Ended June 30,		Favorable (Unfavorable)	
	2011	2010	Amount	%	2011	2010	Amount	%
Interest Income	$ 13.3	$ 15.1	$ (1.8)	-12 %	$ 40.0	$ 46.5	$ (6.5)	-14 %
WAP investments	5.5	6.2	(0.7)	-11 %	17.0	19.0	(2.0)	-11 %
Receivables and investments	7.8	8.9	(1.1)	-12 %	23.0	27.5	(4.5)	-16 %
Interest Expense	(30.5)	(42.7)	12.2	29 %	(101.5)	(124.9)	23.4	19 %
WAP jackpot liabilities	(5.5)	(6.1)	0.6	10 %	(17.0)	(18.7)	1.7	9 %
Borrowings	(17.5)	(29.4)	11.9	40 %	(62.5)	(82.6)	20.1	24 %
Convertible debt equity discount	(7.5)	(7.2)	(0.3)	-4 %	(22.0)	(23.6)	1.6	7 %

Other	(1.9)	3.7	(5.6)	*	1.4	3.3	(1.9)	*
Total other income (expense)	$ (19.1)	$ (23.9)	$ 4.8	20 %	$ (60.1)	$ (75.1)	$ 15.0	20 %

Three months ended June 30, 2011 compared with three months ended June 30, 2010

The favorable variance in total other income (expense) was primarily due to reduced interest expense on lower borrowings and lower rates, partially offset by lower interest income and unfavorable derivative fair value adjustments.

Nine months ended June 30, 2011 compared with nine months ended June 30, 2010

The favorable variance in total other income (expense) was primarily due to decreased interest expense on lower debt and a gain of $4.3 million on the sale of our CLS equity investment, partially offset by decreased interest income and unfavorable derivative fair value adjustments. 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.

Consolidated Income Tax Provision (See Note 12)

	Quarters Ended June 30, 2011	Quarters Ended June 30, 2010	Favorable (Unfavorable) Amount	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010	Favorable (Unfavorable) Amount
Income tax provision	$ 29.9	$ (0.1)	$ (30.0)	$ 96.7	$ 54.9	$ (41.8)
Effective tax rate	24.6 %	-0.1 %	(24.7) pp	29.4 %	21.8 %	(7.6) pp

Our effective tax rate on income from continuing operations increased for the first nine months of 2011, because the prior year period was positively impacted by $36.7 million primarily related to the settlement of our IRS audit for 2002 through 2005. The 2011 nine months included certain favorable discrete tax items of $7.0 million related to the manufacturing deduction and retroactive reinstatement of the R&D tax credit and $15.1 million resulting from a lapse in the statute of limitations for 2007.

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 items, and changes in uncertain tax positions.

BUSINESS SEGMENT RESULTS – A Year Over Year Comparative Analysis

Operating income for the North America and International segments below reflects applicable operating expenses. See Note 16 for additional business segment information.

North America

	Quarters Ended June 30, 2011	Quarters Ended June 30, 2010	Favorable (Unfavorable) Amount	%	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010	Favorable (Unfavorable) Amount	%
Revenues	$ 364.0	$ 355.0	$ 9.0	3 %	$ 1,083.7	$ 1,088.3	$ (4.6)	-
Gaming operations	228.1	230.5	(2.4)	-1 %	679.0	704.8	(25.8)	-4 %
Product sales	135.9	124.5	11.4	9 %	404.7	383.5	21.2	6 %
Machines	70.4	63.5	6.9	11 %	223.8	221.3	2.5	1 %
Non-machine	65.5	61.0	4.5	7 %	180.9	162.2	18.7	12 %
Gross profit	$ 214.2	$ 196.6	$ 17.6	9 %	$ 640.0	$ 615.2	$ 24.8	4 %
Gaming operations	138.9	127.1	11.8	9 %	414.2	411.9	2.3	1 %
Product sales	75.3	69.5	5.8	8 %	225.8	203.3	22.5	11 %
Gross margin	59 %	55 %	4 pp	7 %	59 %	57 %	2 pp	4 %
Gaming operations	61 %	55 %	6 pp	11 %	61 %	58 %	3 pp	5 %
Product sales	55 %	56 %	(1) pp	-2 %	56 %	53 %	3 pp	6 %
Units								
Gaming operations installed base	40,700	42,700	(2,000)	-5 %	40,700	42,700	(2,000)	-5 %
Fixed	7,200	6,900	300	4 %	7,200	6,900	300	4 %
Variable	33,500	35,800	(2,300)	-6 %	33,500	35,800	(2,300)	-6 %
Product sales shipped	4,500	4,100	400	10 %	14,400	14,300	100	1 %
New	600	900	(300)	-33 %	3,500	4,000	(500)	-13 %
Replacement	3,900	3,200	700	22 %	10,900	10,300	600	6 %
Product sales recognized	4,900	4,500	400	9 %	15,700	15,200	500	3 %
Operating income	$ 122.4	$ 98.2	$ 24.2	25 %	$ 357.0	$ 268.6	$ 88.4	33 %
Operating margin	34 %	28 %	6 pp	21 %	33 %	25 %	8 pp	32 %

Three months ended June 30, 2011 compared with three months ended June 30, 2010

North America operating income increased with higher product sales, gaming operations yield improvement, and lower costs.

North America gaming operations revenues decreased primarily due to our lower installed base, down largely related to the closure of charitable gaming facilities in Alabama. Our lower installed base was partially offset by improved yields, most significantly in our WAP base, and the removal of lower-yield Alabama units. Yield improvement was attributable to an increasing mix of newer game titles and an overall shift toward higher-yield units. Gross profit and margin improvement was primarily due to higher yields and lower jackpot expense.

North America product sales improvement was driven by higher replacement units and network systems. Gross profit and margin was impacted unfavorably by higher parts and royalty costs.

Nine months ended June 30, 2011 compared with nine months ended June 30, 2010

North America operating income increased driven by product sales improvement and reduced operating expenses mostly due to prior year impairment charges related to Alabama charitable market closures.

North America gaming operations revenues decreased primarily attributable to our lower installed base, partially offset by improved yields, up 3%, and increased non-installed base revenues related to systems access fees and leases. Our lower installed base was partially offset by improved yields, most significant in our WAP base, and the removal of lower-yield Alabama units. Yield improvement, in part attributable to an increasing mix of newer game titles, continued to be partially offset by the continued shift in our installed base mix toward lower-yield non-WAP games. Gross profit and margin improvement was primarily due to higher yields and lower jackpot expense.

Product sales revenues increased with higher network systems sales, as well as increased replacement machines, parts, and IP licensing fees. Gross profit and margin were also favorably impacted by the increased contribution from higher-margin systems revenues, lower discounts largely related to the prior year promotions, partially offset by increased parts costs.

International

	Quarters Ended June 30, 2011	2010	Favorable (Unfavorable) Amount	%	Nine Months Ended June 30, 2011	2010	Favorable (Unfavorable) Amount	%
Revenues	$ 125.0	$ 119.9	$ 5.1	4 %	$ 333.5	$ 354.7	$ (21.2)	-6 %
Gaming operations	39.3	38.4	0.9	2 %	111.1	108.5	2.6	2 %
Product sales	85.7	81.5	4.2	5 %	222.4	246.2	(23.8)	-10 %
Machines	66.3	54.4	11.9	22 %	162.6	173.9	(11.3)	-6 %
Non-machine	19.4	27.1	(7.7)	-28 %	59.8	72.3	(12.5)	-17 %
Gross profit	$ 74.4	$ 71.4	$ 3.0	4 %	$ 200.6	$ 205.0	$ (4.4)	-2 %
Gaming operations	25.7	28.4	(2.7)	-10 %	76.7	80.2	(3.5)	-4 %
Product sales	48.7	43.0	5.7	13 %	123.9	124.8	(0.9)	-1 %
Gross margin	60 %	60 %	- pp	-	60 %	58 %	2 pp	3 %
Gaming operations	65 %	74 %	(9) pp	-12 %	69 %	74 %	(5) pp	-7 %
Product sales	57 %	53 %	4 pp	8 %	56 %	51 %	5 pp	10 %
Units								
Gaming operations installed base	12,600	11,900	700	6 %	12,600	11,900	700	6 %
Fixed	2,600	2,300	300	13 %	2,600	2,300	300	13 %
Variable	10,000	9,600	400	4 %	10,000	9,600	400	4 %
Product sales shipped	3,800	3,300	500	15 %	10,400	9,700	700	7 %
New	1,400	1,600	(200)	-13 %	4,500	4,800	(300)	-6 %
Replacement	2,400	1,700	700	41 %	5,900	4,900	1,000	20 %
Product sales recognized	4,000	3,800	200	5 %	10,500	11,300	(800)	-7 %
Operating income	$ 43.6	$ 43.7	$ (0.1)	-	$ 105.3	$ 122.8	$ (17.5)	-14 %
Operating margin	35 %	36 %	(1) pp	-3 %	32 %	35 %	(3) pp	-9 %

Three months ended June 30, 2011 compared with three months ended June 30, 2010

International operating income was relatively flat, as revenue and gross profit increases were offset by increased operating costs largely related to additional infrastructure development related to our interactive product line and Latin America operations. Favorable foreign exchange rates increased international revenues by approximately $8.9 million.

International gaming operations revenues increased primarily due to favorable foreign exchange rates and installed base growth, while gross profit and margin declined with an increased mix of lower-yield games. Installed base increases in Africa and South America were partially offset by decreases in Mexico resulting from conversions of leased games to for-sale units.

International product sales revenues and gross profit increased with higher unit volume and favorable foreign exchange rates. Gross profit and margin also benefited from a favorable product and jurisdiction mix.

Nine months ended June 30, 2011 compared with nine months ended June 30, 2010

International operating income decreased primarily due to lower product sales and higher operating costs largely related to additional infrastructure development related to our interactive product line and Latin America operations. Favorable foreign exchange rates increased international revenues by approximately $13.6 million.

International gaming operations revenues increased primarily due to favorable foreign exchange rates and installed base growth, while gross profit and margin declined with higher depreciation.

International product sales revenues decreased with fewer units and lower systems and parts, partially offset by the impact of favorable foreign exchange rates. Gross profit and margin were favorably impacted by product and jurisdiction mix, including a higher-margin contribution from lease conversion games sold in Mexico.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Selected Financial Information and Statistics

	2011	2010	(Decrease)
Cash and equivalents	$ 316.3	$ 158.4	$ 157.9
Accounts receivable, net	291.1	290.3	0.8
Inventories	91.3	97.6	(6.3)
Working Capital	781.4	620.1	161.3
Trailing-twelve month statistics, excluding discontinued operations:			
Average days sales outstanding (excluding contracts and notes)	56	53	3
Inventory turns	4.1	4.4	(0.3)

At June 30, 2011, our principal sources of liquidity were cash and equivalents and amounts available on our credit facilities discussed below under Credit Facilities and Indebtedness. Other potential sources of capital include, but are not limited to, the issuance of debt securities, bank credit facilities and the issuance of equity securities. Based on past performance and current expectations, we believe the combination of these resources will satisfy our needs for working capital, jackpot liabilities, capital expenditures, debt service, and other liquidity requirements associated with our existing operations for the foreseeable future.

Restricted cash and investments, as well as jackpot annuity investments, are used for funding jackpot winner payments and online player deposits. Restricted cash held by VIE assets are used only for funding related VIE jackpot winner payments. See Note 2 for additional information about our VIE's.

Cash and equivalents increased $157.9 million during the nine months ended June 30, 2011, primarily due to cash generated from operations of $448.7 million and net proceeds from investments and loans of $120.8 million, offset by business acquisitions of $105.9 million, capital expenditures of $155.1 million and net debt repayments of $104.4 million. The remaining decrease was comprised mostly of dividends paid of $53.8 million and share repurchases of $25.0 million, partially offset by net employee stock plan proceeds of $33.4 million.

Cash Flows Summary - A Year Over Year Comparative

Nine months ended June 30, 2011 compared to the nine months ended June 30, 2010

First nine months	2011	2010	Favorable (Unfavorable)
Operations	$ 448.7	$ 423.8	$ 24.9
Investing	(140.2)	(126.0)	(14.2)
Financing	(149.8)	(273.2)	123.4
Effects of exchange rates	(0.8)	(6.4)	5.6
Net Change	$ 157.9	$ 18.2	$ 139.7

Operating Cash Flows

Higher operating cash flows provided during 2011 were primarily the result of decreased cash used for working capital. Less cash used for income taxes, accounts payable and accrued liabilities was partially offset by increased cash used for inventory and jackpot liabilities and less cash provided from other assets and receivables. Cash flows related to jackpot liabilities fluctuate based on the timing of jackpots and winner payments, volume of play, and market variations in applicable interest rates.

Investing Cash Flows

More cash used for investing during 2011 was primarily the result of increased business acquisitions (see Note 17 for more information about the Entraction acquisition) and reduced investment proceeds, partially offset by lower capital expenditures, along with increased cash provided from development financing loans, affiliate investments, restricted cash, and higher proceeds from the sale of gaming operations equipment.

First nine months	2011	2010	Increase (Decrease)
Property, plant and equipment	$ 10.8	$ 15.9	$ (5.1)
Gaming operations equipment	143.2	159.9	(16.7)
Intellectual property	1.1	2.4	(1.3)
Total capital expenditures	$ 155.1	$ 178.2	$ (23.1)

Financing Cash Flows

Decreased cash used for financing during 2011 was primarily related to decreased debt repayments, partially offset by increased cash used for share repurchases. During the quarter, we purchased 1.5 million shares in open market transactions for an aggregate cost of $25.0 million under a $500 million share repurchase plan approved by the Board on June 7, 2011.

Credit Facilities and Indebtedness (See Note 10)

Domestic Credit Facility

At June 30, 2011, no amounts were drawn on our domestic credit facility, $728.7 million was available, and $21.3 million was reserved for letters of credit and performance bonds. We were in compliance with all debt covenants at June 30, 2011, with an interest coverage ratio of 10.8 and a net funded debt leverage ratio of 2.0.

On April 14, 2011, we modified our domestic credit facility, reducing it from $1.2 billion to $750 million. The former facility was terminated in conjunction with the issuance of a new facility providing a $750.0 million revolving line of credit, of which up to $100.0 million is available for letters of credit and up to $50.0 million is available for swing line borrowing. Subject to lenders' discretion, we may increase the facility size by an additional $250.0 million at any time during its term. At maturity on April 14, 2016, all amounts outstanding will be immediately due and payable.

The new facility interest rates and facility fees are more favorable than the former facility and are based on our public debt ratings or our Net Funded Debt to EBITDA ratio, whichever is more favorable to IGT. Net Funded Debt is defined as debt minus any unrestricted cash and investments in excess of $150.0 million. The initial interest rate is LIBOR plus 122.5 bps on borrowings with a facility fee of 27.5 bps at the Baa2/BBB pricing level. As a result of the modification, deferred offering costs related to the former facility of $1.5 million were expensed and the remaining $9.8 million was combined with additional issuance costs of $4.5 million, to be collectively amortized over the new facility term.

The new domestic credit facility carries no limitations on share repurchases or dividend payments, presuming no event of default. The following new facility covenants are less restrictive than those under the former facility (all terms as defined per the new facility):

- a minimum ratio of 3.00 adjusted EBITDA to interest expense (interest coverage ratio)
- a maximum ratio of 3.50 for net funded debt to adjusted EBITDA (net funded debt leverage ratio)
- certain restrictions on our ability to:
  - § pledge the securities of our subsidiaries
  - § permit our subsidiaries to incur or guaranty additional debt, or enter into swap agreements
  - § incur liens
  - § merge with or acquire other companies, liquidate or dissolve
  - § sell, transfer, lease or dispose of all or substantially all assets
  - § change the nature of our business

The new facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including failure to make timely principal and interest payments or satisfy the covenants. An event of default, if not cured, could cause the entire outstanding borrowings under the credit facility to become immediately due and payable, lenders may cease making loans and/or terminate commitments, and cross default provisions may be triggered in other debt issuances.

Foreign Credit Facility

At June 30, 2011, $10.8 million was available with nothing drawn under our revolving credit facility in Australia, which generally renews annually with maturity in February.

Financial Condition

	June 30, 2011	September 30, 2010	Increase (Decrease)
Assets	$ 4,076.4	$ 4,007.0	$ 69.4
Liabilities	2,623.0	2,772.7	(149.7)
Total Equity	1,453.4	1,234.3	219.1

Changes During The Nine Months Ended June 30, 2011

Total assets increased primarily due to increased cash (up $157.9 million) and the acquisition of Entraction with total assets of $133.4 million, partially offset by decreases in deferred taxes and taxes receivable of $59.4 million, fair value adjustments for interest rate swaps of $28.6 million, jackpot funding assets of $31.0 million, customer receivables of $61.9 million, and intangible asset amortization of $34.3 million.

Liabilities decreased primarily due to reductions of $103.0 million in net debt, including $26.0 million related to fair value adjustments for interest rate swaps, and $64.0 million in jackpot liabilities. Shareholders’ equity increased primarily with earnings.

Arrangements with Off-Balance Sheet Risk

In the normal course of business, we are a party to financial instruments with off-balance sheet risk, such as performance bonds, guarantees and product warranties not reflected in our balance sheet. We may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including but not limited to, losses arising:

- out of our breach of agreements with those parties
- from services to be provided by us
- from IP infringement claims made by third parties

Additionally, we have agreements with our directors and certain officers that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We have also agreed to indemnify certain former officers and directors of acquired companies. We maintain director and officer insurance, which may cover our liabilities arising from these indemnification obligations in certain circumstances.

It is not possible to determine the maximum potential obligations under these indemnification undertakings due to the unique facts and circumstances involved in each particular agreement. Such indemnification undertakings may not be subject to maximum loss clauses. Historically, we have not incurred material costs related to indemnification obligations.

We do not expect any material losses to result from these arrangements and do not rely on off-balance sheet financing arrangements to fund our operations. See also Note 11.

RECENTLY ISSUED ACCOUNTING STANDARDS

At June 30, 2011, there were no recently issued accounting standards that will have a significant impact to our financial statements. See Note 1.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements were prepared in conformity with US GAAP. Accordingly, we are required to make estimates incorporating judgments and assumptions we believe are reasonable based on our historical experience, contract terms, trends in our company and the industry as a whole, as well as information available from other outside sources. Our estimates affect amounts recorded in the financial statements and actual results may differ from initial estimates.

We consider the following accounting estimates to be the most critical to fully understand and evaluate our reported financial results. They require us to make subjective or complex judgments about matters that are inherently uncertain or variable. The following accounting estimates are considered the most sensitive to changes from external factors.

- revenue recognition
- goodwill, other intangible assets, royalties, and affiliate investments
- jackpot liabilities and expenses

- inventory and gaming operations equipment
- income taxes

There have been no significant changes in our critical accounting estimates since those presented in Item 7 of our Annual Report on Form 10-K for the year ended September 30, 2010.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's market risk profile has not changed materially during the first nine months of 2011 since those presented in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure. We recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives. Judgment is required when designing and evaluating the cost-benefit relationship of potential controls and procedures.

As of the end of the period covered by this report, with the supervision and participation of management, including our CEO and CFO, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our CEO and CFO have concluded that, as of the end of such period, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

As a part of our normal operations, we update our internal controls as necessary to accommodate any modifications to our business processes or accounting procedures. No changes occurred during the most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a description of our material legal proceedings, see Note 11, which is incorporated by reference in response to this item.

Item 1A. Risk Factors

Set forth below and elsewhere in this Quarterly Report on Form 10-Q, and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. We have revised the risk factors that relate to our business, below. These risks include any material changes to and supersede the risks previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended September 30, 2010, our Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

Our business is vulnerable to changing economic conditions and to other factors that adversely affect the casino 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 casino industry, which is highly sensitive to casino patrons' disposable incomes and gaming activities. Discretionary spending on entertainment activities could further decline for reasons beyond our control, such as continued negative economic conditions, natural disasters, acts of war or terrorism, transportation 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. Unfavorable economic conditions have also resulted in a tightening in the credit markets, decreased liquidity in many financial markets, and significant volatility in the credit and equity markets.

A decline in the relative health of the gaming industry and the difficulty or inability of our customers to obtain adequate levels of capital to finance their ongoing operations reduces their resources available to purchase our products and services, 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, the extended economic downturn has impacted and could continue to 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.

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

We operate only in jurisdictions where gaming is legal. 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
- documentation of qualifications, including evidence of financial stability
- other required approvals for companies who manufacture or distribute gaming equipment and services
- individual suitability of officers, directors, major shareholders and key employees

Any license, permit, approval or finding of suitability may be revoked, suspended or conditioned at any time. We may not be able to obtain or maintain all necessary registrations, licenses, permits or approvals, or could experience delays related to the licensing process which could adversely affect our operations and our ability to maintain 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 for our games and gaming machines, hardware or software, we cannot sell or place on a participation or leased basis our products in that jurisdiction. 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.

Further, changes in existing gaming regulations or new interpretations of existing gaming laws 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.

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 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 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. The rate of gaming growth in North America has diminished and machine replacements are at historically low levels. Slow growth in the establishment of new gaming jurisdictions or delays in the opening of new or expanded casinos and continued 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 is sold to or merges with another entity that utilizes more of the products and services of one 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 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 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.

Competition in the gaming industry is intense due to the increasing number of providers, combined with the limited number of casino operators and jurisdictions in which they operate. This combination of a growing number of providers and a limited number of casino 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 that are attractive to operators.

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 decreased player spend.

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. As a result, we must continually introduce and successfully market new themes and technologies in order to remain competitive and effectively stimulate customer demand. To remain competitive, we have invested resources towards our research and development efforts to introduce new and innovative games with dynamic features to attract new customers and retain existing customers.

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 from hardware, software, and firmware engineering to game design, video, multimedia, graphics, and sound. Because our newer products are generally more technologically sophisticated than those we have produced in the past, we must continually refine our production capabilities to meet the needs of our product innovation. If we cannot efficiently adapt our manufacturing infrastructure to meet the needs of our product innovations, or if we are unable to make upgrades in our production capacity in a timely manner, our business could be negatively impacted.

Our customers will accept a new 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. For example, our business and results could be adversely affected if we experience delays in our continued deployment of sbX® gaming management systems, or if we do not gain market acceptance for these or other systems that are currently under development.

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

As we introduce new products and 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 and/or software components and applicable accounting principles or regulatory product approval delays could further change the timing of revenue recognition and 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 systems and software.

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 or remain low 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 continuing low interest rates or further declines 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 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 protecting these rights from infringement. 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, and 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.

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 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.

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. 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
- tariffs and other trade barriers
- fluctuations in foreign exchange rates outside the US
- adverse changes in the creditworthiness of parties with whom we have significant receivables or forward currency exchange contracts
- expropriation, nationalization and restrictions on repatriation of funds or assets
- difficulty protecting our intellectual property
- recessions in foreign economies
- difficulties in maintaining foreign operations

- changes in consumer tastes and trends
- acts of war or terrorism
- US government requirements for export.

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, 5.5% 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.

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.

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. 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 machines and operations or we could become subject to legal claims by our customers or to investigation by gaming authorities.

Our gaming machines 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 gaming machines 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 disciplinary action.

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 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 or customer 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. Despite our implementation of network security measures and data protection safeguards, 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 have a material adverse effect on our business, reputation, operating results and financial condition.

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. 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.

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. 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 cause delays in getting new products to market.

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, including locations abroad. Such investment and financing activities subject us to increased credit risk in certain regions, which could be exacerbated by current 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.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

On June 7, 2011, the Board approved a $500.0 million share repurchase plan. The table below reflects 1.5 million shares of common stock repurchased under the plan, as well as 19,700 common shares of restricted stock or units (not under the plan) tendered by employees at fair value on the vesting date to satisfy related tax withholding obligations.

Periods	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as part of a Publicly Announced Plan	Approximate Dollar Value of Shares Still Available for Purchase Under the Plan
(In millions, except price per share)				
April 3 - April 30, 2011	-	$ -	-	$ 500.0

May 1 - May 28, 2011	-	-	-	500.0
May 29 - July 2, 2011	1.5	16.25	1.5	$ 475.0
Total	1.5	$ 16.25	1.5	

Item 3. Defaults Upon Senior Securities

None

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Item 4. (Removed and Reserved)

Item 5. Other Information

None

Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Rule 13a – 14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Rule 13a – 14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 10, 2011

INTERNATIONAL GAME TECHNOLOGY

By: /s/ Patrick W. Cavanaugh
Patrick W. Cavanaugh
Executive Vice President, Chief Financial Officer, and Treasurer
(Principal Financial Officer)