

INTERNATIONAL GAME TECHNOLOGY
Form 10-Q
August 12, 2010

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

FORM 10-Q

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

For the Quarterly Period Ended July 3, 2010

OR

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

For the transition period from ____ to ____

Commission File Number 001-10684

International Game Technology

Nevada
(State or other jurisdiction of Incorporation or
Organization)

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

9295 Prototype Drive

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

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

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

Yes No

Indicate 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

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

At August 9, 2010, there were 298.1 million shares of our \$.00015625 par value common stock outstanding.

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

Fiscal dates as presented:

June 30, 2010

June 30, 2009

September 30, 2009

Fiscal dates -- actual:

July 3, 2010

July 4, 2009

October 3, 2009

Abbreviation/term as presented

Anchor

ARS

ASU

AVP®

5.5% Bonds

7.5% Bonds

bps

CAD

CCSC

CDS

CEO

CFO

CLS

DCF

Debentures

EBITDA

EPA

EPS

ERISA

FASB

GAAP

ICR

IGT, we, our, the Company

IP

IRS

LIBOR

MBE

MDA

Notes

OSHA

pp

SEC

SIP

TLR

TPE

UK

US

VIE

VSOE

WAP

*

Definition

Anchor Gaming

auction rate securities

accounting standards update

Advanced Video Platform®

5.5% notes due 2020

7.5% notes due 2019

basis points

Canadian dollars

Colorado Central Station Casino

central determination system

Chief Executive Officer

Chief Financial Officer

China LotSynergy Holdings, Ltd.

discounted cash flow

convertible debentures, 1.75% or 2.65% as noted

earnings before interest, tax, depreciation, and amortization

Environmental Protection Agency

earnings per share

Employee Retirement Income Security Act

Financial Accounting Standards Board

generally accepted accounting principles

interest coverage ratio

International Game Technology and its consolidated entities

intellectual property

Internal Revenue Service

London Inter-Bank Offering Rate

management's best estimate

management's discussion and analysis

3.25% Convertible Notes due 2014

Occupational Safety & Health Administration

percentage points

Securities and Exchange Commission

Stock Incentive Plan

total leverage ratio

third-party evidence

United Kingdom

United States

variable interest entity

vendor specific objective evidence

wide area progressive

not meaningful (in tables)

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENTS

	Quarters Ended		Nine Months Ended	
	2010	2009	2010	2009
(In millions, except per share amounts)				
Revenues				
Gaming operations	\$276.6	\$286.7	\$834.4	\$886.1
Product sales	213.1	230.6	658.1	695.1
Total revenues	489.7	517.3	1,492.5	1,581.2
Costs and operating expenses				
Cost of gaming operations	115.3	108.4	326.5	375.9
Cost of product sales	98.5	113.1	321.8	346.3
Selling, general and administrative	82.3	94.8	254.4	315.2
Research and development	51.6	51.3	149.4	155.2
Depreciation and amortization	19.1	19.7	57.5	58.8
Impairment and restructuring	2.7	3.0	63.4	28.7
Total costs and operating expenses	369.5	390.3	1,173.0	1,280.1
Operating income	120.2	127.0	319.5	301.1
Other income (expense)				
Interest income	15.2	15.1	46.6	46.4
Interest expense	(42.7)	(43.2)	(124.9)	(110.8)
Other	3.3	2.1	3.2	(7.7)
Total other income (expense)	(24.2)	(26.0)	(75.1)	(72.1)
Income from continuing operations before tax	96.0	101.0	244.4	229.0
Income tax provision	1.4	38.8	55.1	69.4
Income from continuing operations	94.6	62.2	189.3	159.6
Loss from discontinued operations, net of tax	(2.5)	(1.6)	(23.2)	(4.2)
Net income	\$92.1	\$60.6	\$166.1	\$155.4
Basic earnings per share				
Continuing operations	\$0.32	\$0.21	\$0.64	\$0.54
Discontinued operations	(0.01)	(0.01)	(0.08)	(0.01)
Net income	\$0.31	\$0.20	\$0.56	\$0.53
Diluted earnings per share				
Continuing operations	\$0.32	\$0.21	\$0.63	\$0.54
Discontinued operations	(0.01)	(0.01)	(0.08)	(0.01)
Net income	\$0.31	\$0.20	\$0.55	\$0.53
Cash dividends declared per share	\$0.06	\$0.06	\$0.18	\$0.27
Weighted average shares outstanding				
Basic	297.0	294.3	296.0	293.7
Diluted	298.9	294.6	298.1	293.8

See accompanying notes

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CONSOLIDATED BALANCE SHEETS

	June 30, 2010	September 30, 2009
(In millions, except par value)		
Assets		
Current assets		
Cash and equivalents	\$164.9	\$146.7
Investment securities	-	21.3
Restricted cash and investment securities	87.0	79.4
Jackpot annuity investments	65.7	67.2
Accounts receivable, net	275.4	334.3
Current maturities of notes and contracts receivable, net	189.8	154.8
Inventories	114.6	157.8
Deferred income taxes	95.2	82.8
Other assets and deferred costs	152.5	189.4
Total current assets	1,145.1	1,233.7
Property, plant and equipment, net	574.1	558.8
Jackpot annuity investments	372.4	396.9
Notes and contracts receivable, net	186.6	249.4
Goodwill	1,149.2	1,151.5
Other intangible assets, net	216.2	259.2
Deferred income taxes	166.1	172.2
Other assets and deferred costs	275.9	306.4
Total Assets	\$4,085.6	\$4,328.1
Liabilities and Stockholders' Equity		
Liabilities		
Current liabilities		
Short-term debt	\$-	\$5.3
Accounts payable	85.5	90.5
Jackpot liabilities, current portion	168.1	155.5
Accrued employee benefits	17.3	32.8
Accrued income taxes	2.0	9.4
Dividends payable	17.9	17.8
Other accrued liabilities	245.2	313.2
Total current liabilities	536.0	624.5
Long-term debt	1,813.2	2,014.7
Jackpot liabilities	402.8	432.6
Other liabilities	124.2	192.7
Total Liabilities	2,876.2	3,264.5
Commitments and Contingencies		
Stockholders' Equity		
Common stock: \$.00015625 par value; 1,280.0 shares authorized; 339.0 and 337.2 issued; 298.1 and 296.6 outstanding	0.1	0.1
Additional paid-in capital	1,463.2	1,417.8
Treasury stock at cost: 40.9 and 40.6 shares	(801.8)	(799.3)
Retained earnings	549.9	437.3
Accumulated other comprehensive income	(1.1)	6.1
Total IGT Stockholders' Equity	1,210.3	1,062.0
Noncontrolling Interests	(0.9)	1.6

Total Equity	1,209.4	1,063.6
Total Liabilities and Stockholders' Equity	\$4,085.6	\$4,328.1

See accompanying notes

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended June 30, (In millions)	2010	2009
Operations		
Net income	\$166.1	\$155.4
Adjustments:		
Depreciation and amortization	179.4	212.3
Discounts and deferred issuance costs	36.8	23.8
Inventory obsolescence	13.2	10.1
Bad debt provisions	6.1	25.0
Share-based compensation	31.3	30.1
(Gain) loss on investments	(0.2)	2.1)
Gain on redemption of debt	-	(1.3)
Impairment	59.8	-
Other non-cash items	(1.3)	(5.7)
Excess tax benefits from employee stock plans	(8.3)	-
Changes in operating assets and liabilities, excluding acquisitions:		
Receivables	35.6	73.1
Inventories	35.3	30.8
Other assets and deferred costs	49.5	11.2
Income taxes, net of employee stock plans	(54.2)	(50.1)
Accounts payable and accrued liabilities	(90.4)	(90.7)
Jackpot liabilities	(34.9)	(71.7)
Cash from operations	423.8	354.4
Investing		
Capital expenditures	(178.2)	(175.8)
Proceeds from assets sold	7.2	7.7
Proceeds from investment securities	21.6	-
Jackpot annuity investments, net	44.9	37.6
Changes in restricted cash	(7.9)	31.7
Loans receivable cash advanced	(17.7)	(85.4)
Loans receivable payments received	10.4	6.1
Investments in unconsolidated affiliates	(4.9)	(11.9)
Business acquisitions/VIE deconsolidation	(1.4)	(15.7)
Cash from investing	(126.0)	(205.7)
Financing		
Debt proceeds	1,350.3	2,789.4
Debt repayments	(1,593.4)	(2,749.8)
Debt issuance costs	(0.1)	(63.5)
Warrant proceeds	-	66.8
Convertible note hedge purchases	-	(177.3)
Employee stock plan proceeds	15.2	5.5
Excess tax benefits from employee stock plans	8.3	-
Dividends paid	(53.5)	(103.5)
Cash from financing	(273.2)	(232.4)
Foreign exchange rates effect on cash and equivalents	(6.4)	1.3
Net change in cash and equivalents	18.2	(82.4)
Beginning cash and equivalents	146.7	266.4

Ending cash and equivalents	\$164.9	\$184.0
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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)	2010	2009
Jackpot funding		
Change in jackpot liabilities	\$(34.9) \$(71.7
Jackpot annuity purchases	(3.8) (10.9
Jackpot annuity proceeds	48.7	48.5
Net change in jackpot annuity investments	44.9	37.6
Net jackpot funding	\$10.0	\$(34.1
Capital expenditures		
Property, plant and equipment	\$(15.9) \$(33.2
Gaming operations equipment	(159.9) (136.7
Intellectual property	(2.4) (5.9
Total	\$(178.2) \$(175.8
Payments		
Interest	\$83.3	\$71.4
Income taxes	109.3	117.8
Non-cash investing and financing items:		
Accrued capital asset additions	\$2.1	\$4.7
Interest accretion for jackpot annuity investments	18.7	20.9
Business acquisitions/purchase price adjustments and VIE deconsolidations		
Fair value of assets	\$(0.8) \$21.9
Fair value of liabilities	(2.2)