INTERNATIONAL GAME TECHNOLOGY
Form 10-Q
May 08, 2013

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 March 30, 2013

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

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

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

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 [ ] (Do not check if a smaller reporting company)	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 May 3, 2013:
260.4 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—actual:	Fiscal dates—as presented:
March 30, 2013	March 31, 2013
March 31, 2012	March 31, 2012
September 29, 2012	September 30, 2012

Abbreviation/term	Definition
Anchor	Anchor Gaming
APIC	additional paid-in-capital
ASP	average sales price per machine unit
ASR	accelerated share repurchase transaction
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
CEO	chief executive officer
CFO	chief financial officer
DAU	Daily Active Users
DCF	discounted cash flow
DoubleDown	Double Down Interactive LLC
EBITDA	earnings before interest, taxes, depreciation, and amortization
EPS	earnings per share
ERISA	Employee Retirement Income Security Act
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
IGT, we, our, the Company	International Game Technology and its consolidated entities
IGT rgs®	IGT Remote Game Server®
IP	intellectual property
IRS	Internal Revenue Service
LIBOR	London inter-bank offered rate
MAU	Monthly Active Users
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
SEC	Securities and Exchange Commission
SIP	2002 Stock Incentive Plan
SG&A	sales, general and administrative
UK	United Kingdom
US	United States
UTBs	unrecognized tax benefits
VIE	variable interest entity
VWAP	average daily volume weighted average price
VLT	video lottery terminal

WAP	wide area progressive
Yield	average revenue per unit per day
*	not meaningful (in tables)

PART I – FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Periods Ended March 31,			
	Second Quarters		Six Months	
	2013	2012	2013	2012
(In millions, except per share amounts)				
Revenues				
Gaming operations	$254.3	$266.1	$496.9	$518.1
Product sales	279.0	240.8	513.7	421.8
Interactive	66.7	34.3	119.6	46.9
Total revenues	600.0	541.2	1,130.2	986.8
Costs and operating expenses				
Cost of gaming operations	97.6	103.0	187.1	201.0
Cost of product sales	135.0	108.8	244.2	198.2
Cost of interactive	26.1	15.8	48.2	22.0
Selling, general and administrative	110.7	109.3	210.9	199.1
Research and development	58.1	55.3	112.5	102.2
Depreciation and amortization	19.7	19.3	38.7	34.7
Contingent acquisition-related costs	21.9	11.7	39.3	11.7
Impairment	1.6	-	1.6	-
Total costs and operating expenses	470.7	423.2	882.5	768.9
Operating income	129.3	118.0	247.7	217.9
Other income (expense)				
Interest income	11.1	10.8	22.4	22.9
Interest expense	(30.3)	(30.0)	(62.0)	(60.1)
Other	(2.5)	(2.0)	(2.7)	(4.8)
Total other income (expense)	(21.7)	(21.2)	(42.3)	(42.0)
Income from continuing operations before tax	107.6	96.8	205.4	175.9
Income tax provision	29.4	34.4	61.9	63.2
Income from continuing operations	78.2	62.4	143.5	112.7
Loss from discontinued operations, net of tax	-	(0.5)	-	(1.5)
Net income	$78.2	$61.9	$143.5	$111.2
Other comprehensive income (loss), net of $0 tax				
Foreign currency translation adjustment	(8.5)	13.3	(5.1)	19.4
Unrealized loss on available-for-sale securities	-	(0.1)	-	(0.3)
Comprehensive income	$69.7	$75.1	$138.4	$130.3
Basic earnings (loss) per share				
Continuing operations	$0.30	$0.21	$0.54	$0.38
Discontinued operations	-	-	-	(0.01)
Net income	$0.30	$0.21	$0.54	$0.37
Diluted earnings (loss) per share				
Continuing operations	$0.29	$0.21	$0.54	$0.38
Discontinued operations	-	-	-	(0.01)
Net income	$0.29	$0.21	$0.54	$0.37
Cash dividends declared per share	$0.08	$0.06	$0.15	$0.12
Weighted average shares outstanding				
Basic	263.6	296.7	264.7	297.0
Diluted	265.6	298.1	266.7	298.6

See Accompanying Notes

CONSOLIDATED BALANCE SHEETS

(In millions, except par value)	March 31, 2013	September 30, 2012
Assets		
Current assets		
Cash and equivalents	$236.5	$206.3
Restricted cash and investment securities	73.9	79.7
Restricted cash and investment securities of VIEs	1.9	2.2
Jackpot annuity investments	45.4	46.9
Jackpot annuity investments of VIEs	13.1	13.3
Accounts receivable, net	361.7	346.6
Current maturities of contracts and notes receivable, net	216.6	218.2
Inventories	89.4	92.9
Deferred income taxes	116.3	96.7
Other assets and deferred costs	132.8	160.5
Total current assets	1,287.6	1,263.3
Property, plant and equipment, net	511.5	555.7
Jackpot annuity investments	239.9	252.3
Jackpot annuity investments of VIEs	39.7	43.4
Contracts and notes receivable, net	115.2	139.3
Goodwill	1,467.5	1,469.7
Other intangible assets, net	161.6	193.4
Deferred income taxes	118.4	106.5
Other assets and deferred costs	258.3	261.5
Total Assets	$4,199.7	$4,285.1
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities		
Accounts payable	$86.4	$87.5
Jackpot liabilities, current portion	140.2	152.4
Accrued employee benefits	22.8	43.7
Accrued income taxes	7.6	8.1
Dividends payable	20.8	16.0
Other accrued liabilities	345.9	322.6
Total current liabilities	623.7	630.3
Long-term debt	1,829.3	1,846.4
Jackpot liabilities	308.9	328.6
Other liabilities	195.3	282.0
Total Liabilities	2,957.2	3,087.3
Commitments and Contingencies		
Shareholders' Equity		
Common stock: $.00015625 par value; 1,280.0 shares authorized; 270.1 and 343.5 issued; 260.6 and 266.1 outstanding	-	0.1
Additional paid-in capital	1,394.5	1,585.1
Treasury stock at cost: 9.5 and 77.4 shares	(159.3)	(1,332.9)
Retained earnings	7.9	941.0
Accumulated other comprehensive income	(0.6)	4.5

Total Equity	1,242.5	1,197.8
Total Liabilities and Shareholders' Equity	$4,199.7	$4,285.1

See Accompanying Notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended March 31, (In millions)	2013	2012
Operating		
Net income	$143.5	$111.2
Adjustments:		
Depreciation and amortization	117.8	115.2
Acquisition-related contingent earn-out costs	16.2	-
Discounts and deferred issuance costs	22.1	20.1
Share-based compensation	18.6	16.7
Bad debt provisions	10.0	(1.9)
Net loss on disposal and impairment	1.6	1.5
Excess tax benefits from employee stock plans	(0.9)	(2.3)
Other non-cash items	2.4	5.7
Changes in operating assets and liabilities, excluding acquisitions:		
Receivables	(21.1)	(28.5)
Inventories	9.4	(14.6)
Accounts payable and accrued liabilities	(78.0)	3.8
Jackpot liabilities	(40.7)	(21.9)
Income taxes, net of employee stock plans	(21.0)	(11.5)
Other assets and deferred costs	2.6	(16.8)
Net operating cash flows	182.5	176.7
Investing		
Capital expenditures	(56.4)	(123.6)
Proceeds from assets sold	8.3	19.8
Jackpot annuity investments, net	27.1	23.6
Changes in restricted cash	5.8	3.2
Loans receivable payments received	15.1	14.9
Business acquisitions, net of cash acquired	-	(233.0)
Net investing cash flows	(0.1)	(295.1)
Financing		
Debt proceeds	65.0	-
Debt repayments	(85.0)	-
Employee stock plan proceeds	7.4	12.0
Excess tax benefits from employee stock plans	0.9	2.3
Share repurchases	(75.1)	(50.1)
Noncontrolling interest acquired	-	(2.5)
Dividends paid	(34.7)	(35.7)
Acquisition-related contingent consideration	(27.9)	-
Net financing cash flows	(149.4)	(74.0)
Foreign exchange rates effect on cash and equivalents	(2.8)	3.5
Net change in cash and equivalents	30.2	(188.9)
Beginning cash and equivalents	206.3	460.0
Ending cash and equivalents	$236.5	$271.1

See Accompanying Notes

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SUPPLEMENTAL CASH FLOWS INFORMATION

Six Months Ended March 31, (In millions)		2013		2012
Jackpot funding				
Change in jackpot liabilities	$	(40.7)	$	(21.9)
Jackpot annuity purchases		(1.7)		(6.2)
Jackpot annuity proceeds		28.8		29.8
Net change in jackpot annuity investments		27.1		23.6
Net jackpot funding	$	(13.6)	$	1.7
Capital expenditures				
Property, plant and equipment	$	(8.1)	$	(34.5)
Gaming operations equipment		(48.1)		(87.1)
Intellectual property		(0.2)		(2.0)
Total	$	(56.4)	$	(123.6)
Payments				
Interest	$	28.9	$	29.6
Income taxes		82.8		72.5
Acquisition-related retention bonuses		29.7		-
Acquisition-related contingent earn-out consideration				
Operating cashflows		17.2		-
Financing cashflows		27.9		-
Total	$	45.1	$	-
Non-cash investing and financing items:				
Accrued capital asset additions	$	2.6	$	0.7
Interest accretion for jackpot annuity investments		9.2		10.2
Business acquisitions/purchase price adjustments				
Fair value of assets	$	-	$	352.3
Fair value of liabilities		-		2.7

Payments for acquisition-related contingent earn-out consideration

Amounts accrued as of the acquisition date are reflected in financing cash flows. Payments for amounts accrued subsequent to the acquisition date, in excess of amounts accrued as part of the purchase price allocation, are reflected in operating cash flows within changes in accounts payable and accrued liabilities.

Depreciation and amortization

Amounts reflected in operating cash flows are comprised of operating expenses shown separately on the income statements, plus those amounts included within cost of product sales, cost of gaming operations, cost of interactive, and discontinued operations.

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. Similarly, our quarters end on the Saturday nearest to the last day of the quarter end month. For simplicity, fiscal periods in this report are presented using the calendar month end as outlined in the table below.

	Period End	
	Actual	Presented as
Current quarter	March 30, 2013	March 31, 2013
Prior year quarter	March 31, 2012	March 31, 2012
Prior year end	September 29, 2012	September 30, 2012

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

Our consolidated interim financial statements for the current quarter ended March 31, 2013 were prepared without audit on a basis consistent with the comparative quarter ended March 31, 2012, and as appropriate, with the audited financial statements for the year ended September 30, 2012. Certain information and footnote disclosures have been condensed or omitted in conformity with SEC and US GAAP requirements.

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, 2012.

Unless otherwise indicated in this report:

- references to years relate to our fiscal years ending September 30
- dollar amounts in tables are presented in millions, except per share amounts and par value
- current refers to the quarter ended March 31, 2013
- italicized text with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors, and additional IGT trademark information is available on our website at www.IGT.com

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.

Treasury Stock Retirement

In December 2012, we retired 75.0 million treasury shares, which decreased treasury stock by $1,252.2 million, APIC by $215.1 million and retained earnings by $1,037.1 million.

Accumulated Other Comprehensive Income (AOCI)

At March 31, 2013 AOCI was comprised of foreign currency translation adjustment (not tax effected).

	Periods Ended March 31, 2013	
Foreign currency translation	Second Quarter	Six Months
Beginning balance	$7.9	$4.5
Other comprehensive income before reclassifications	(8.5)	(5.1)
Amounts reclassified from accumulated other comprehensive income	-	-
Net current-period other comprehensive income	(8.5)	(5.1)
Ending balance	$(0.6)	$(0.6)

Recently Adopted Accounting Standards or Updates

Qualitative Impairment Assessment for Goodwill and Other Indefinite-Lived Intangibles

At the beginning of 2013, we adopted an ASU issued in September 2011 to simplify the annual goodwill impairment test by allowing an entity to first assess qualitative factors, considering the totality of events and circumstances, to determine that there is a greater than 50% likelihood that the carrying amount of a reporting unit is less than its fair value. If so, then the two-step impairment test is not required. We also adopted an ASU issued in July 2012 to simplify the impairment testing for other indefinite-lived intangibles in a similar fashion. The adoption of these ASUs did not have a material impact on our financial statements.

Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI)

In our 2013 second quarter, we adopted an ASU issued in February 2013 requiring disclosure about the reclassifications out of AOCI. For significant reclassifications out of AOCI to earnings in their entirety in the same reporting period, disclosure is required about the effect of the reclassifications on the respective line items on the income statement. This ASU is effective prospectively beginning with our second quarter ended March 31, 2013 and did not have a material impact on our financial statements.

Recently Issued Accounting Standards or Updates—Not Yet Adopted

Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries

In March 2013, the FASB issued an ASU requiring the release of cumulative translation adjustment into net income when an entity either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a foreign subsidiary. This ASU will be effective prospectively for our 2015 first quarter and is not expected to have a material impact on our financial statements.

Obligations Resulting from Joint and Several Liability Arrangements

In February 2013, the FASB issued an ASU to require new disclosures for an entity that is jointly and severally liable to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of a co-obligor. This ASU will be effective for our 2015 first quarter and is not expected to have a material impact on our financial statements.

Offsetting Assets and Liabilities

In December 2011, the FASB issued an ASU to require new disclosures associated with offsetting financial instruments and derivative instruments on the balance sheet that will enable users to evaluate the effect on an entity's financial position. In January 2013, the FASB issued an ASU to clarify the scope of disclosures about offsetting assets and liabilities. The scope of the new disclosures was narrowed to include derivatives, repurchase agreements and securities borrowing and lending that are offset or subject to an enforceable master netting arrangement or similar agreement. Both ASUs will be effective for our 2014 first quarter and are not expected to have a material impact on our financial statements.

2. VARIABLE INTERESTS AND AFFILIATES

Variable Interest Entities

New Jersey Trusts

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 and IGT is 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 $54.7 million at March 31, 2013 and $58.9 million at September 30, 2012.

Latin America Distributor

In March 2012, we contracted with a third party distributor in Latin America to sell IGT products. The distributor is a VIE as it is unable to finance its activities without additional support from IGT; however, the distributor was not consolidated because IGT does not have contractual or implied control. Under the agreement, our maximum exposure at March 31, 2013 consisted of $0.6 million in note financing provided for operating costs and contract financing under a revolving line of credit of $13.0 million for IGT product purchases. Revenues recognized related to this distributor totaled $2.1 million for the 2013 second quarter and $7.7 million for the six months ended March 31, 2013. Contracts and notes receivable due from this distributor totaled $12.0 million at March 31, 2013 ($7.0 million current and $5.0 million non-current).

3. RECEIVABLES

Accounts Receivable

Allowances for Credit Losses	March 31, 2013	September 30, 2012
Total	$21.3	$19.1

Customer Financing (Contracts and Notes)

	March 31, 2013	September 30, 2012
Recorded Investment (principal and interest due, net of deferred interest and fees)		
Individually evaluated for impairment	$117.6	$123.2
Collectively evaluated for impairment	294.8	307.1
Total	$412.4	$430.3
Allowances for Credit Losses		
Individually evaluated for impairment	$67.4	$59.9
Collectively evaluated for impairment	13.2	12.9

Total	$80.6	$72.8

Reconciliation of Allowances for Credit Losses	Periods Ended March 31,			
	Second Quarters		Six Months	
	2013	2012	2013	2012
Beginning balance	$76.6	$70.1	$72.8	$71.4
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
Provisions (1)	4.0	0.4	7.8	(0.9)
Ending balance	$80.6	$70.5	$80.6	$70.5
Current	$63.3	$46.8	$63.3	$46.8
Non-current	$17.3	$23.7	$17.3	$23.7

(1) Included $1.6 million additional Alabama note impairment recorded during the quarter ended March 31, 2013, primarily related to accrued unpaid property taxes on the associated property collateral. The remaining net carrying amount of the note totaled $14.9 million at March 31, 2013.

Age Analysis of Recorded Investment	March 31, 2013			September 30, 2012		
	Contracts	Notes	Total	Contracts	Notes	Total
Past Due:						
1-29 days	$ 6.6	$ 1.4	$ 8.0	$ 6.6	$ -	$ 6.6
30-59 days	5.5	1.4	6.9	6.0	1.4	7.4
60-89 days	3.8	1.4	5.2	1.4	1.4	2.8
Over 90 days	10.9	46.6	57.5	6.3	40.0	46.3
Total past due	$ 26.8	$ 50.8	$ 77.6	$ 20.3	$ 42.8	$ 63.1
Total current (2)	278.6	56.2	334.8	288.1	79.1	367.2
Grand total	$ 305.4	$ 107.0	$ 412.4	$ 308.4	$ 121.9	$ 430.3
Over 90 days and accruing interest	$ 0.8	$ 0.1	$ 0.9	$ 1.4	$ 0.3	$ 1.7
Nonaccrual status (not accruing interest)	22.2	75.0	97.2	13.8	75.0	88.8

(2) includes impaired Alabama note of $27.5 at March 31, 2013 and $35.0 at September 30, 2012

Recorded Investment by Credit Quality Indicator Using Credit Profile by Internally Assigned Risk Grade

	March 31, 2013			September 30, 2012		
	Contracts	Notes	Total	Contracts	Notes	Total
Low	$80.1	$-	$80.1	$87.8	$-	$87.8
Medium	66.2	0.1	66.3	68.3	0.2	68.5
High (3)	159.1	106.9	266.0	152.3	121.7	274.0
Total recorded investment	$305.4	$107.0	$412.4	$308.4	$121.9	$430.3

(3) includes $75.0 of impaired Alabama note receivable

Impaired loans	March 31, 2013			September 30, 2012		
	Contracts	Notes	Total	Contracts	Notes	Total
Recorded investment	$ 17.3	$ 75.0	$ 92.3	$ 2.5	$ 75.0	$ 77.5

Unpaid principal face	24.9	75.0	99.9	2.5	75.0	77.5
Related allowance	7.3	60.1	67.4	1.4	58.5	59.9
Average recorded investment	9.9	75.0	84.9	3.9	79.5	83.4

Interest income recognized on impaired loans	Periods Ended March 31,					
		2013			2012	
	Contracts	Notes	Total	Contracts	Notes	Total
Year-to-date						
Total	$0.4	$-	$0.4	$-	$-	$-
Cash-basis	-	-	-	-	-	-

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4. CONCENTRATIONS OF CREDIT RISK

Receivables By Legal Gaming Region At March 31, 2013

Nevada	11	%
Canada	7	
California	5	
Other (less than 4% individually)	31	
North America	54	%
Argentina	18	%
Europe	9	
Australia	5	
Mexico	5	
Other (less than 4% individually)	9	
International	46	%

5. INVENTORIES

	March 31, 2013	September 30, 2012
Raw materials	$54.1	$48.8
Work-in-process	2.2	2.4
Finished goods	33.1	41.7
Total	$89.4	$92.9

6. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2013	September 30, 2012
Land	$61.2	$62.7
Buildings	231.2	236.7
Leasehold improvements	17.0	15.3
Machinery, furniture and equipment	297.3	287.9
Gaming operations equipment	802.4	813.5
Total	1,409.1	1,416.1
Less accumulated depreciation	(897.6)	(860.4)
Property, plant and equipment, net	$511.5	$555.7

7. GOODWILL AND OTHER INTANGIBLES

Goodwill

Activity By Segment For the Six Months Ended March 31, 2013	North America	International	Total
Beginning balance	$1,275.6	$194.1	$1,469.7
Purchase price adjustment	(0.2)	-	(0.2)
Foreign currency	-	(2.0)	(2.0)
Ending balance	$1,275.4	$192.1	$1,467.5

Other Intangibles

During the six months ended March 31, 2013, $0.2 million of patent legal costs were capitalized with a weighted average life of 2.8 years.

	March 31, 2013			September 30, 2012		
Ending Balances	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Patents	$ 377.1	$ 321.8	$ 55.3	$ 379.6	$ 310.7	$ 68.9
Developed technology	128.7	72.5	56.2	131.9	68.3	63.6
Contracts	23.8	21.8	2.0	23.9	21.1	2.8
Reacquired rights	14.7	4.4	10.3	14.7	3.5	11.2
Customer relationships	61.2	32.0	29.2	61.1	23.9	37.2
Trademarks	12.5	3.9	8.6	12.5	2.8	9.7
Total	$ 618.0	$ 456.4	$ 161.6	$ 623.7	$ 430.3	$ 193.4

	Periods Ended March 31, Second Quarters		Six Months		Future Annual Estimates				
Aggregate Amortization	2013	2012	2013	2012	2013	2014	2015	2016	2017
	$ 16.3	$ 16.6	$ 31.9	$ 27.2	$ 62.6	$ 52.3	$ 36.2	$ 22.0	$ 10.2

8. FAIR VALUE MEASUREMENTS

Financial Assets (Liabilities) Carried at Fair Value

	Fair Value	Level 1	Level 2	Level 3
March 31, 2013				
Money market funds	$164.5	$164.5	$-	$-
Derivative assets	102.5	-	102.5	-
Derivative liabilities	(104.5)	-	(104.5)	-
Acquisition contingent consideration payable	(87.6)	-	-	(87.6)
September 30, 2012				

Money market funds	$77.0	$77.0	$-	$-
Derivative assets	118.2	-	118.2	-
Derivative liabilities	(119.7)	-	(119.7)	-
Acquisition contingent consideration payable	(116.4)	-	-	(116.4)

Valuation Techniques and Balance Sheet Presentation

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

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.

Acquisition contingent consideration payable related to DoubleDown reaching certain earnings targets was valued with a DCF model applied to the expected payments determined based on probability-weighted internal earnings projections. We applied a rate of probability (11% - 77%) to each outstanding scenario, as well as a risk-adjusted discount rate of 18%, to derive the estimated fair value at March 31, 2013. Changes in the projections and/or the probabilities are the most significant assumptions and result in directionally similar changes in the fair value. Discount rate changes cause a directionally opposite change in the fair value. Acquisition contingent consideration payable was presented as a component of other liabilities, $51.7 million current and $35.9 million noncurrent at March 31, 2013 versus $42.8 million current and $73.6 million noncurrent at September 30, 2012. Earn-out consideration of $45.0 million (excluding payroll taxes) was paid during the second quarter for earnings targets met by DoubleDown for calendar 2012. An increase of $14.1 million to the payable fair value was recorded during the second quarter to contingent acquisition related costs on the income statement along with $7.8 million of accrued retention plan compensation. Changes in fair value were primarily due to an increase in forecasted earnings, updated probability-weighted internal earnings projections, and the time-value of money.

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

Six Months Ended March 31,	2013	2012	
	Acquisition Contingent Consideration Payable	Investments in Unconsolidated Affiliates	Acquisition Contingent Consideration Payable
Beginning balance	$(116.4)	$9.3	$-
Gain (loss) included in:			
Other income (expense) - other	-	(0.4)	-
Other comprehensive income	-	(0.2)	-
Issuances	-	-	(90.7)
Accretion (interest and fair value adjustment)	(16.2)	0.5	-
Payments	45.0	-	-
Ending balance	$(87.6)	$9.2	$(90.7)
Net change in unrealized gain (loss) included in earnings related to instruments still held	$-	$(0.4)	$-

Financial Assets (Liabilities) Not Carried at Fair Value

	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Unrealized Gain (Loss)
March 31, 2013						
Jackpot investments	$ 338.1	$ 395.4	$ 395.4	$ -	$ -	$ 57.3

Contracts & notes receivable	331.8	322.6	-	-	322.6	(9.2)
Jackpot liabilities	(449.1)	(453.7)	-	-	(453.7)	(4.6)
Debt	(1,725.1)	(1,950.2)	(1,829.3)	(120.9)	-	(225.1)
September 30, 2012						
Jackpot investments	$ 355.9	$ 422.0	$ 422.0	$ -	$ -	$ 66.1
Contracts & notes receivable	357.5	353.5	-	-	353.5	(4.0)
Jackpot liabilities	(481.0)	(503.0)	-	-	(503.0)	(22.0)
Debt	(1,726.9)	(1,955.4)	(1,815.4)	(140.0)	-	(228.5)

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 market interest rates relative to the credit risk of each customer (low 7.5%, medium 8%, high 9.5% - 11.25%). Credit risk is determined 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. Contracts are secured by the underlying assets sold and notes are secured by the developed property and/or other assets. 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 Latin America. See Notes 3 and 4.

Jackpot liabilities were valued using DCF, incorporating expected future payment timing, estimated funding rates based on the treasury yield curve, and IGT's nonperformance credit risk. Expected annuity payments over 1-25 years (average 10 years) were discounted using the 10-year treasury yield curve rate (1.85%) for the estimated funding rate and the 10-year credit default swap rate (2.29%) for nonperformance risk. The present value (carrying value) of the expected lump sum payments were discounted using the 1-year treasury yield curve rate (.13%) with the 1-year credit default swap rate (.27%) for the current amounts and the 2-year treasury yield curve rate (.25%) with the 2-year credit default swap rate (.55%) for noncurrent amounts. Significant increases (decreases) in any of these inputs in isolation would result in a lower (higher) fair value measurement. Generally, changes in the estimated funding rates do not correlate with changes in nonperformance credit risk.

The majority of our debt was level 1 and valued using quoted market prices or dealer quotes for the identical financial instrument when traded as an asset in an active market. Outstanding borrowings under our revolving credit facility were level 2 and fair value was determined using DCF of expected payments at current borrowing rates. Carrying values in the table excluded swap adjustments and equity components of convertible debt.

Level 3 Valuation Process

Our valuation policies and procedures are determined by the Accounting Department, which ultimately reports to the Chief Financial Officer, in coordination with appropriate business asset owners and third-party valuation services when needed. Changes in fair value and methods for calibration, back testing, and other testing procedures of pricing models are evaluated through analytical review by managers of the responsible Accounting Department quarterly, by the Global Controller at inception and periodically with significant changes. Material valuations are discussed with the Audit Committee at inception and periodically if changes are significant or if impairment charges are recorded. Third-party information is evaluated for consistency with the FASB ASC for fair value measurement through analytical review and in-depth discussions with a variety of valuation experts.

Unobservable inputs are used only to the extent that observable inputs are not available and reflect management assumptions that cannot be corroborated with observable market data about what market participants would use in pricing the asset or liability, including assumptions about risk. Our unobservable inputs consist primarily of expected cash flows, stock price volatility, and other rates derived through extrapolation or interpolation. These inputs are developed based on the best information available, including trends deduced from available historical information and future expectations, using company specific data and market or industry published data. These inputs are validated for reasonableness by analytic comparison to other relevant valuation statistics whenever possible. Unobservable inputs depend on the facts and circumstances specific to a given asset or liability and require significant professional judgment.

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9. FINANCIAL DERIVATIVES

Foreign Currency Hedging

The notional amount of foreign currency contracts hedging our exposure related to monetary assets and liabilities denominated in nonfunctional currency totaled $49.8 million at March 31, 2013 and $34.1 million at September 30, 2012.

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 these 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 these interest rate swaps are highly effective.

Presentation of Derivative Amounts

Balance Sheet Location and Fair Value	March 31, 2013	September 30, 2012
Non-designated Hedges		
Foreign currency contracts: Other assets and deferred costs (current)	$0.2	$0.1
Foreign currency contracts: Other accrued liabilities	0.3	0.2
Designated Hedges		
Interest rate swaps: Other assets and deferred costs (noncurrent)	$102.3	$118.1
Interest rate swaps: Long-term debt	104.2	119.5

	Periods Ended March 31,			
	Quarters		Six Months	
Income Statement Location and Gain (loss)	2013	2012	2013	2012
Non-designated Hedges				
Foreign currency contracts: Other income (expense)	$0.2	$0.1	$0.1	$0.6
Designated Hedges				
Interest rate swap - ineffectiveness: Other income (expense)	$(1.9)	$0.6	$(0.5)	$0.9
Interest rate swap - effectiveness: Interest expense	6.6	6.3	11.6	12.2

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10. CREDIT FACILITIES AND INDEBTEDNESS

Total Outstanding debt

	March 31, 2013	September 30, 2012
Credit facilities	$120.0	$140.0
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	1,770.0	1,790.0
Discounts:		
3.25% Convertible Notes	(42.0)	(60.0)
7.5% Bonds	(1.9)	(2.1)
5.5% Bonds	(1.0)	(1.0)
Swap fair value adjustments:		
7.5% Bonds	67.7	77.0
5.5% Bonds	36.5	42.5
Total outstanding debt, net	$1,829.3	$1,846.4

IGT was compliant with all covenants and embedded features required no bifurcation at March 31, 2013.

At March 31, 2013, $120.0 million was outstanding under our $750.0 million revolving credit facility, $606.8 million was available, and $23.2 million was reserved for letters of credit and performance bonds.

On April 23, 2013, we entered into an amended and restated credit agreement, increasing the available revolving line of our credit facility from $750.0 million to $1.0 billion, of which up to $50.0 million is available for letters of credit and up to $50.0 million is available for swing line borrowing. The former facility was terminated in conjunction with the issuance of the new credit facility. Subject to lenders' consent, the facility may be increased by $250.0 million at any time up to 60 days prior to maturity. At maturity on April 23, 2018, all amounts outstanding will be immediately due and payable. The maturity may be extended upon our request for one year on each of the first and second closing date anniversaries, presuming no default exists.

The new facility interest rates and facility fees 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. At the initial pricing level of Baa2/BBB, the interest rate was LIBOR plus 100 bps and the facility fee was 17.5 bps. Additional debt issuance costs of approximately $3.3 million were capitalized and together with $8.2 million of previously deferred offering costs remaining from the former facility will be amortized to interest expense over the new facility term.

Substantially the same as the former credit facility, the new credit facility carries no limitations on share repurchases or dividend payments provided no default exists and includes the following covenants (all terms as defined in the facility document):

- a minimum ratio of 3.0 adjusted EBITDA to interest expense (interest coverage ratio)
- a maximum ratio of 3.5 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 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.

3.25% Convertible Notes

	Periods Ended March 31,			
	Quarters		Six Months	
	2013	2012	2013	2012
Contractual interest expense	$6.9	$6.9	$13.8	$13.8
Discount amortization	9.1	8.3	18.0	16.4
Remaining discount amortization period (years)	1.1			

Bonds

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

11. CONTINGENCIES

Litigation

From time to time, in the normal course of its operations, the Company is a party to litigation matters and claims. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and the Company's view of these matters may change in the future as the litigation and events related thereto unfold. The Company expenses legal fees as incurred. The Company records a provision for contingent losses when it is both probable that a liability will be incurred and the amount or range of the loss can be reasonably estimated. Except as otherwise stated below, we have concluded that we cannot estimate the reasonably possible loss or range of loss, including reasonably possible losses in excess of amounts already accrued, for each specific matter disclosed below. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Company's operations or its financial position, liquidity or results of operations.

Bally

2004 Federal District Court of Nevada

On December 7, 2004, IGT filed a complaint in US District Court for the District of Nevada, alleging that defendants Alliance Gaming Corp., Bally Gaming Int'l, Inc., and Bally Gaming, Inc. infringed six US patents held by IGT: US Patent Nos. 6,827,646; 5,848,932; 5,788,573; 5,722,891; 6,712,698; and 6,722,985. On January 21, 2005, defendants filed an answer denying the allegations in the complaint and raising various affirmative defenses to IGT's asserted claims. Defendants also asserted fourteen counterclaims against IGT, including counterclaims for a declaratory judgment of non-infringement, invalidity, and unenforceability of the asserted patents, and for antitrust violations and intentional interference with prospective business advantage. IGT 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 denied 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 remained 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 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 a 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 appealed the grant of summary judgment. On December 17, 2012 the United States Court of Appeals for the Federal Circuit affirmed the rulings in IGT’s favor. On January 14, 2013, Bally filed a petition for rehearing of its appeal. On February 15, 2013, the Federal Circuit denied Bally’s petition for rehearing.

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 (the “’215 patent”), 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 appealed this judgment. Proceedings on IGT’s claim that Aristocrat committed inequitable conduct in reviving the ‘215 patent application continued in the District Court. A trial was held the week of April 4, 2011 on that inequitable conduct issue, and that claim was dismissed on May 6, 2011.

IGT and Aristocrat entered into an agreement, effective September 30, 2011, settling the lawsuit. On October 6, 2011, the parties filed a letter with the court advising the court that, in accordance with the parties’ resolution of several disputes between them, the case would be concluded by dismissal with prejudice following the final resolution of the pending appeal of the judgment of non-infringement. In connection with the settlement, IGT was granted an irrevocable paid-up license to the Aristocrat patents that were the subject of the litigation and related patents. On March 13, 2013, the United States Court of Appeals for the Federal Circuit affirmed the District Court’s grant of summary judgment with regard to direct infringement and vacated and remanded the District Court’s judgment with respect to indirect infringement. In accordance with the settlement agreement, the parties have stipulated to dismissal of the case and moved for entry of an order dismissing all claims and counterclaims with prejudice.

Atlantic Lotteries

In an action brought in the Supreme Court of New Foundland and Labrador by Babstock and Small as representatives of a purported class of persons allegedly harmed by VLT gaming in the Province of New Foundland and Labrador. Atlantic Lottery Corporation has impleaded VLC, Inc. IGT-Canada, Inc., International Game Technology and other third party defendants seeking indemnification for any judgment recovered against Atlantic Lottery Corporation in the main action. Plaintiffs filed a motion for class action certification on September 17, 2012. The Court has decided to address the motion for certification in two phases. Under Phase 1, the Court will determine whether the Plaintiffs have pleaded a cause of action. Hearings on Phase 1 are scheduled to be heard on June 6 and 7, 2013. Should the Court conclude that Plaintiffs have pleaded a cause of action, then, under Phase 2, the Court would determine the appropriateness of certification of the putative class.

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 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.

The parties have settled this action. On February 1, 2012, at the direction of the Court, the plaintiffs filed a Notice of Pending Settlement. On March 28, 2012, the parties submitted to the Court a stipulation to settle the litigation for a payment of $12.5 million. On March 30, 2012 the Court issued an order of preliminary approval and the settlement was paid into escrow by insurance in April 2012. The Court approved the stipulated settlement on October 19, 2012.

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 alleged 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. appealed to the US Court of Appeals for the Ninth Circuit. On April 2, 2012, the appeals court affirmed the district court's decision dismissing the action.

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 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. On July 25, 2011, the Court granted the Company's motion to dismiss with prejudice. Plaintiff appealed to the US Court of Appeals for the Ninth Circuit on August 23, 2011. Oral argument has been scheduled for May 15, 2013.

In February 2011, another shareholder sent a letter to the Company's Board of Directors requesting that the Board investigate allegations similar to those set forth in the derivative actions described above and bring a lawsuit against various of the Company's current or former officers and directors. In response the Board of Directors formed a litigation committee comprised of disinterested outside directors and assisted by outside counsel to investigate and evaluate the allegations raised in this letter. At the conclusion of this investigation, the committee concluded and recommended that it would not be in the best interests of the Company or its shareholders to pursue the proposed claims. The Board considered and accepted this recommendation and the Company informed the shareholder of the Board's resolution in September 2011. On March 15, 2012, the shareholder filed a derivative action in state court in Reno, Nevada (Gusinsky v. Thomas J. Matthews, et. al.), Second Judicial Court of the State of Nevada. Plaintiff filed an amended complaint on September 24, 2012. The Company was named as a nominal defendant only. On January 9, 2013, the Court granted the Company's and individual defendants' motions to dismiss the action. Plaintiff appealed, but withdrew his appeal of that order in exchange for the Defendants' withdrawal of their request for costs and fees. The court entered the stipulation of dismissal on March 21, 2013.

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 was filed. On March 14, 2012, defendants' motion to dismiss the action was granted. On April 3, 2012, the plaintiff appealed to the US Court of Appeals for the Ninth Circuit.

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. On March 16, 2012, the Court denied plaintiff's motion for class certification. On December 21, 2012, the parties submitted a stipulation to settle the litigation for a payment of $500,000 and up to $25,000 towards settlement administrative expenses, which was accrued for in our 2013 first quarter. On January 22, 2013, the Court granted preliminary approval of the settlement. A hearing for final approval of the settlement has been set for June 3, 2013.

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.

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 March 31, 2013 totaled $12.0 million.

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 plaintiffs were awarded damages in an amount equal to approximately $2.2 million. On March 9, 2011, IGT filed a 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, and on May 27, 2011, the Court entered an amended judgment for prejudgment interest of approximately $1.3 million, attorneys' fees of approximately $1.0 million, and court costs of approximately $132,000. IGT filed a notice of appeal to the US Court of Appeals for the Ninth Circuit on June 21, 2011, which is pending. On July 1, 2011 plaintiffs filed a notice of cross appeal. The parties' cross appeals have been fully briefed.

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 $14.3 million at March 31, 2013. We are liable to reimburse the bond issuer in the event of exercise due to our nonperformance.

Letters of Credit

Outstanding letters of credit issued under our domestic credit facility to ensure payment to certain vendors and governmental agencies totaled $8.9 million at March 31, 2013.

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 to 180 days. We estimated accrued warranty costs in the table below based on historical trends in product failure rates and expected costs to provide warranty services.

Six Months Ended March 31,	2013	2012
Beginning balance	$4.2	$6.2
Reduction for payments made	(3.4)	(2.8)
Accrual for new warranties issued	5.0	4.4
Adjustments for pre-existing warranties	(1.5)	(2.9)
Ending balance	$4.3	$4.9

12. INCOME TAXES

Our provision for income taxes is based on an estimated effective annual income tax rate, as well as the impact of discrete items, if any, occurring during the period. 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 six months ended March 31, 2013 decreased to 30.1% from 35.9% for the same prior year period. The prior year effective tax rate was negatively impacted by losses in foreign jurisdictions for which there were no associated tax benefits and the expiration of the R&D tax credit. The current year effective tax rate was positively impacted by the expiration of the statute of limitations in foreign jurisdictions, the re-instatement of the R&D tax credit, and an increase in the manufacturing deduction.

At March 31, 2013, our gross UTBs totaled $112.7 million, excluding related accrued interest and penalties of $22.1 million. At March 31, 2013, $80.9 million of our UTBs, including related accrued interest and penalties, would affect our effective tax rate if recognized. During the six months ended March 31, 2013, our UTBs increased $1.2 million and related interest and penalties decreased $1.3 million. We do not believe our total UTBs will change significantly during the next twelve months.

We are currently under audit by the IRS for amended returns filed for 1999, 2006 and 2007 as well as both the originally filed and amended returns for 2008 and 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

SIP As Of And For The Six Months Ended March 31, 2013

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	12,117	$ 18.12		
Granted	-	-		
Exercised	(423)	11.89		
Forfeited	(280)	16.70		
Expired	(627)	19.79		
Outstanding at end of period	10,787	$ 18.31	5.6	$ 12.8
Vested and expected to vest	10,553	$ 18.35	5.5	$ 12.7
Exercisable at end of period	8,317	$ 18.81	5.0	$ 11.4

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	4,833	$14.93		
Granted*	3,169	14.10		
Vested	(1,157)	15.23		
Forfeited	(429)	14.62		
Outstanding at end of period	6,416	$14.46	1.6	$105.9
Expected to vest	5,678	$14.48	1.6	$93.7

* certain awards require satisfaction of a combination of performance and market conditions

Other Information	
Shares available for future grant (millions)	24.1
Unrecognized costs for outstanding awards (millions)	$84.6
Weighted average future recognition period (years)	1.8

14. EARNINGS PER SHARE

	Periods Ended March 31,			
	Second Quarters		Six Months	
	2013	2012	2013	2012
Income from continuing operations available to common shares	$78.2	$62.4	$143.5	$112.7
Basic weighted average shares outstanding	263.6	296.7	264.7	297.0
Dilutive effect of non-participating share-based awards	2.0	1.4	2.0	1.6
Diluted weighted average common shares outstanding	265.6	298.1	266.7	298.6
Basic EPS from continuing operations	$0.30	$0.21	$0.54	$0.38
Diluted EPS from continuing operations	$0.29	$0.21	$0.54	$0.38
Weighted average shares excluded from diluted EPS because the effect would be anti-dilutive:				
Share-based awards	8.5	11.4	8.9	11.6
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

Accelerated Share Repurchase

On December 18, 2012, we received the final delivery of 2.5 million shares of IGT common stock under a $400.0 million ASR transaction executed with Goldman, Sachs, & Co in June 2012. We received 30.3 million total shares based on VWAP over the six-month period for an average price of $13.22 per share.

15. BUSINESS SEGMENTS

We view our business in the following two operating segments:

- North America includes our operations associated with land-based customers located in the US and Canada, as well as US-based interactive online social gaming operations
- 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 an operating segment, primarily comprised of general and administrative costs and other income (expense). 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. Impairment and restructuring charges are reflected within the segment where actions occurred.

Our business segments are designed to allocate resources within a framework of management responsibility. Operating costs included in one segment may benefit other segments. Realignment of our business development and administrative functions may result in changes to operating cost allocations between operating segments.

Business Segments Financial Information

	Periods Ended March 31,			
	Second Quarters		Six Months	
	2013	2012	2013	2012
NORTH AMERICA				
Revenues	$ 475.7	$ 415.5	$ 885.0	$ 738.2
Gaming operations	220.3	233.1	428.8	452.6
Product sales	200.6	160.8	359.5	263.9
Interactive	54.8	21.6	96.7	21.7
Gross profit	272.5	243.1	516.7	427.5
Gaming operations	133.1	138.4	262.7	268.5
Product sales	105.7	92.2	195.0	146.4
Interactive	33.7	12.5	59.0	12.6
Operating income	124.1	123.1	236.5	215.7
INTERNATIONAL				
Revenues	$ 124.3	$ 125.7	$ 245.2	$ 248.6
Gaming operations	34.0	33.0	68.1	65.5
Product sales	78.4	80.0	154.2	157.9
Interactive	11.9	12.7	22.9	25.2
Gross profit	68.8	70.5	134.0	138.1
Gaming operations	23.6	24.7	47.1	48.6
Product sales	38.3	39.8	74.5	77.2
Interactive	6.9	6.0	12.4	12.3
Operating income	32.2	27.9	60.5	59.9
CORPORATE (unallocated)				
Operating expenses	$ (27.0)	$ (33.0)	$ (49.3)	$ (57.7)
CONSOLIDATED				
Revenues	$ 600.0	$ 541.2	$ 1,130.2	$ 986.8
Gaming operations	254.3	266.1	496.9	518.1
Product sales	279.0	240.8	513.7	421.8
Interactive	66.7	34.3	119.6	46.9
Gross profit	341.3	313.6	650.7	565.6
Gaming operations	156.7	163.1	309.8	317.1
Product sales	144.0	132.0	269.5	223.6
Interactive	40.6	18.5	71.4	24.9
Operating income	129.3	118.0	247.7	217.9

16. DISCONTINUED OPERATIONS

UK Barcrest Group

As part of our strategic realignment of core objectives, we sold our UK Barcrest Group in September 2011 for approximately $47.0 million, which remains subject to contingent consideration related to certain customer arrangements and potential indemnification obligations. The quarter ended March 31, 2012 included loss on the sale of $0.8 million (or $0.5 million after-tax) and a loss of $2.4 million (or $1.5 million after-tax) for the six months ended March 31, 2012. Additional gain or loss on the sale may be recorded as the outstanding items are resolved over the next three years.

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 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, 2012, as well as the accompanying Consolidated Interim Financial Statements and Notes included in Item 1 of this Form 10-Q.

Our MDA is organized into the following sections:

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

Unless otherwise indicated in this report:

- International Game Technology, IGT, we, our, or the Company refers to International Game Technology and its consolidated entities
- italicized text with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors, and additional IGT trademark information is available on our website at www.IGT.com
- references to years relate to our fiscal years ending September 30
- current refers to our fiscal second quarter and six months ended March 31, 2013
- Note refers to the Notes of our Consolidated Interim Financial Statements in Item 1 of this report
- references to EPS are on a diluted basis
- table amounts are presented in millions, except units and EPS
- discussion and analysis relates to results for continuing operations of the current 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 expected future financial and operational performance
- our strategic and operational plans
- our leadership position in the gaming industry or in online casino-style social gaming
- the advantages offered to customers by our anticipated products and product features
- economic conditions and other factors affecting the gaming industry
- gaming growth, expansion, and new market opportunities
- expected trends in the demand for our products
- developments with respect to economic, political, regulatory and other conditions affecting our international operations
- mergers, acquisitions and divestitures, including the expected benefits of completed acquisitions and expectations for, possible acquisitions of, or investments in, businesses, products, and technologies
- research and development activities, including anticipated benefits from such activities
- fluctuations in future gross margins, tax rates, and liabilities
- increasing product sales or machine placements
- legislative, legal or regulatory developments and related market opportunities
- available capital resources to fund future operating requirements, capital expenditures, payment obligations, acquisitions, and share repurchases
- losses from off-balance sheet arrangements
- financial returns to shareholders related to management of our costs
- the impact of recently adopted accounting pronouncements
- the outcome and expense of litigation

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. See Part II, 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 gaming company specializing in the design, development, manufacture, and marketing of casino games, gaming equipment and systems technology for land-based and online social gaming and wagering markets. We are a leading supplier of gaming entertainment products worldwide and provide a diverse offering of quality products and services at competitive prices, designed to enhance the player's experience.

We manage our operations in two geographic business segments, North America and International, each incorporating all revenue categories—Gaming Operations, Product Sales, and Interactive. Gaming operations and interactive revenues are generated by providing our products and services under a variety of recurring revenue arrangements. Product Sales revenues are generated by the sale of our products or services. Certain unallocated income and expenses managed at the corporate level, comprised primarily of general and administrative costs and other income and expense, are not allocated to an operating segment. See BUSINESS SEGMENT RESULTS below and Note 15.

Summary Results

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues	$ 600.0	$ 541.2	$ 58.8	11 %	$ 1,130.2	$ 986.8	$ 143.4	15 %
Operating income	129.3	118.0	11.3	10 %	247.7	217.9	29.8	14 %
Income from continuing operations	78.2	62.4	15.8	25 %	143.5	112.7	30.8	27 %
EPS from continuing operations	$ 0.29	$ 0.21	$ 0.08	38 %	$ 0.54	$ 0.38	$ 0.16	42 %

Second quarters ended March 31, 2013 and 2012 compared

Results reflected in the table above improved primarily due to an increase of $60.2 million or 14% in North America revenues, attributable to an increase of $47.3 million or 47% in machine sales and $32.4 million in interactive, mostly from the growing social gaming contributions of DoubleDown acquired in late January 2012. These increases were partially offset by a decrease of $12.8 million or 5% in North America gaming operations.

Income and EPS from continuing operations improvement additionally reflected a lower effective income tax rate of 27% versus 36% in the prior year quarter. EPS from continuing operations also benefitted from fewer shares outstanding due to share repurchases discussed further in Note 14.

Six months ended March 31, 2013 and 2012 compared

Results reflected in the table above improved primarily due to an increase of $146.8 million or 20% in North America revenues, attributable to an increase of $90.0 million or 56% in machine sales and $75.0 million in interactive, mostly from the growing social gaming contributions of DoubleDown acquired in late January 2012. These increases were partially offset by a decrease of $23.8 million or 5% in North America gaming operations.

Income and EPS from continuing operations improvement additionally reflected a lower effective income tax rate of 30% versus 36% in the prior year quarter. EPS from continuing operations also benefitted from fewer shares outstanding due to share repurchases discussed further in Note 14.

For a more in-depth analysis of our results, see CONSOLIDATED RESULTS directly following this OVERVIEW.

Business Trends

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

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

Technological advances in and the increasing popularity of wireless mobile technology, such as smart phones, tablets, and social networking, have led to growth in online social gaming. These games appeal to a broader consumer demographic of players. With the acquisition of DoubleDown in January 2012, we established a leading position in interactive online casino-style social gaming, adding new distribution channels for IGT game content, and allowing players access to our games across multiple platforms and devices. Our online DoubleDown Casino® revenues continue to increase each quarter, with the 2013 second quarter up 31% over the 2013 first quarter. Much of this improvement is attributable to the introduction of IGT content to the DoubleDown Casino®. We expect interactive online gaming to continue to be an important strategic part of our business and intend to enter and do business in those markets that offer attractive return characteristics and build on our existing capabilities.

Strategic Objectives

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

- Reinforcing a leadership position in our core business
- Increasing revenues and profitability in international markets
- Propelling our game content across the broadest possible global network
- Returning capital to shareholders in a consistent, efficient manner

CONSOLIDATED RESULTS – A Year Over Year Comparative Analysis

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues	$600.0	$541.2	$58.8	11 %	$1,130.2	$986.8	$143.4	15 %
Gross margin	57 %	58 %	(1)	pp	58 %	57 %	1	pp
Operating income	$129.3	$118.0	$11.3	10 %	$247.7	$217.9	$29.8	14 %
Margin	22 %	22 %	-	pp	22 %	22 %	-	pp
Income from continuing operations	$78.2	$62.4	$15.8	25 %	$143.5	$112.7	$30.8	27 %
Discontinued operations	-	(0.5)	0.5	*	-	(1.5)	1.5	*
Net income	$78.2	$61.9	$16.3	26 %	$143.5	$111.2	$32.3	29 %
EPS								
Continuing operations	$0.29	$0.21	$0.08	38 %	$0.54	$0.38	$0.16	42 %
Discontinued operations	-	-	-	*	-	(0.01)	0.01	*
Net income	$0.29	$0.21	$0.08	38 %	$0.54	$0.37	$0.17	46 %

Second quarters ended March 31, 2013 and 2012 compared

Total revenues improved 11%, primarily due to an increase of $60.2 million in North America revenues, attributable to an increase of $47.3 million in machine sales and $32.4 million in interactive, mostly from the growing social gaming revenues of DoubleDown acquired in late January 2012. These increases were partially offset by a decrease in North America gaming operations revenues of $12.8 million or 5%. Total gross margin decreased primarily due to lower product sales margin.

Operating income improved 10% primarily due to increased North America machine sales. Operating margin was flat, as increased operating expenses primarily from the addition of DoubleDown offset increased revenues. DoubleDown operating expenses included acquisition related charges of $21.9 million related to accrued contingent retention bonus and earn-out liabilities. See OPERATING EXPENSES below for additional information.

Income and EPS from continuing operations improved, primarily due to increased operating income and a lower effective income tax rate as discussed below under “Income Tax Provisions.” EPS additionally benefitted from the effect of share repurchases discussed further in Note 14.

Six months ended March 31, 2013 and 2012 compared

Total revenues improved 15%, primarily due to an increase of $146.8 million in North America revenues, attributable to an increase of $90.0 million in machine sales and $75.0 million in interactive, mostly from the growing social gaming revenues of DoubleDown acquired in late January 2012. These increases were partially offset by a decrease in North America gaming operations revenues of $23.8 million or 5%. Total gross margin increased due to improved margins in gaming operations and interactive, partially offset by margin decline in product sales.

Operating income improved 14% primarily due to increased North America machine sales. Similar to the quarterly comparison, operating margin was flat, as increased operating expenses mostly from DoubleDown, including acquisition related charges of $39.3 million, offset higher revenues. See OPERATING EXPENSES below for additional information.

Income and EPS from continuing operations improved, primarily due to increased operating income and a lower effective income tax rate as discussed below under “Income Tax Provisions.” EPS additionally benefitted from the effect of share repurchases discussed further in Note 14.

Discontinued operations related to the sale of our UK Barcrest Group in 2011. See Note 16.

GAMING OPERATIONS

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues	$ 254.3	$ 266.1	$ (11.8)	-4 %	$ 496.9	$ 518.1	$ (21.2)	-4 %
Gross margin	62 %	61 %	1	pp	62 %	61 %	1	pp
Installed base (units '000)	56.7	56.1	0.6	1 %	56.7	56.1	0.6	1 %
MegaJackpots® (premium brand)	26.0	27.6	(1.6)	-6 %	26.0	27.6	(1.6)	-6 %
Lease (CDS, Racino, other)	30.7	28.5	2.2	8 %	30.7	28.5	2.2	8 %
Yield (average revenue per unit)	$ 49.26	$ 52.34	$ (3.08)	-6 %	$ 47.99	$ 51.75	$ (3.76)	-7 %

Second quarters ended March 31, 2013 and 2012 compared

Gaming operations revenues decreased 4% driven primarily by lower Megajackpots® revenue, partially offset by increased revenues from a higher installed base of lease units. North America revenue decline was partially offset by an increase in International revenues. Gross margin improvement was primarily due to lower jackpot expense and depreciation, as well as an increased mix of lower-yield/higher-margin games. Yield decreased 6% primarily due to lower performance, most significantly in Megajackpots® WAP games, and continued installed base expansion in lower-yield units.

Six months ended March 31, 2013 and 2012 compared

Gaming operations revenue decrease of 4%, gross margin improvement, and yield decline of 7% were driven by the same factors as the quarterly comparison.

PRODUCT SALES

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues	$279.0	$240.8	$38.2	16 %	$513.7	$421.8	$91.9	22 %
Machines	202.4	161.1	41.3	26 %	359.8	276.8	83.0	30 %
Non-machine (systems, parts, other)	76.6	79.7	(3.1)	-4 %	153.9	145.0	8.9	6 %
Gross margin	52 %	55 %	(3)	pp	52 %	53 %	(1)	pp
Machine units recognized ('000) (1)	14.3	10.2	4.1	40 %	25.0	17.5	7.5	43 %
Machine ASP ('000)	$14.1	$15.8	$(1.7)	-11 %	$14.4	$15.8	$(1.4)	-9 %

Machine units shipped ('000) (2)	14.3	10.5	3.8	36	%	23.7	17.0	6.7	39	%
New/expansion	3.7	3.7	-	-		6.3	5.7	0.6	11	%
Replacement	10.6	6.8	3.8	56	%	17.4	11.3	6.1	54	%

(1) correlates with revenues recognized; (2) includes deferred revenue units

Second quarters ended March 31, 2013 and 2012 compared

Product sales revenue grew 16% primarily due to increased North America VLT machine sales, as well as new casino openings in Ohio. Machine units recognized increased 40%, primarily driven by VLT machines, with 3,500 replacement units in Canada and 600 new units in Illinois. Machine ASP decreased 11% primarily due to targeted promotional discounting and a higher mix of lower-priced VLT units. Non-machine revenues decreased 4%, primarily due to lower theme conversion parts. Gross margin decreased primarily due to targeted promotional activity, as well as a lower mix of higher-margin non-machine sales and increased non-standard manufacturing costs.

Six months ended March 31, 2013 and 2012 compared

Product sales revenue grew 22% driven by increased North America VLT machine sales, as well as new casino openings in Ohio. Machine units recognized increased 43%, primarily driven by VLT machines, with 5,100 replacement units in Canada and 1,800 new units in Illinois. Machine ASP decreased 9% primarily due to targeted promotional discounting and a higher mix of lower-priced VLT units. Non-machine revenues also increased 6%, primarily due to an increase of $12.0 million in IP license fees, in part due to a patent royalty settlement of $5.0 million. Gross margin decreased primarily due to targeted promotional activity.

INTERACTIVE

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues	$ 66.7	$ 34.3	$ 32.4	94 %	$ 119.6	$ 46.9	$ 72.7	155 %
Social gaming	54.3	21.3	33.0	155 %	95.6	21.3	74.3	349 %
IGTi	12.4	13.0	(0.6)	-5 %	24.0	25.6	(1.6)	-6 %
Gross margin	61 %	54 %	7	pp	60 %	53 %	7	pp
DoubleDown average user statistics								
Daily active users (DAU) ('000)	1,690	1,350	340	25 %	1,575	1,350	225	17 %
Monthly active users (MAU) ('000)	6,276	4,975	1,301	26 %	5,596	4,975	621	12 %
Bookings per DAU ($0.00)	$ 0.37	$ 0.24	$ 0.13	54 %	$ 0.34	$ 0.24	$ 0.10	42 %

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

Second quarters ended March 31, 2013 and 2012 compared

Interactive revenue grew $32.4 million, primarily from our acquisition in late January 2012 and subsequent growth of the DoubleDown Casino®. Social gaming revenues continue to improve as a result of increases in both average DAU (up 25%) and bookings per DAU (up 54%). These improvements were driven primarily by the introduction of IGT content to the DoubleDown Casino® and overall growth in desktop and mobile platform applications.

IGTi real-money wagering revenues decreased 5%, primarily due to a decrease of $4.1 million related to the closures of certain European online turnkey and poker operations. This decrease was partially offset by an increase of $3.5 million in online casino revenues, primarily due to a 27% increase in the number of IGT rgs® customers. Also, mobile generated 23% of online casino revenues compared to 14% in the prior year quarter.

Interactive gross margin growth was primarily due to the favorable contribution from DoubleDown. Amortization expense for DoubleDown acquired developed technology totaled $2.3 million in both quarters.

Six months ended March 31, 2013 and 2012 compared

Similar to the quarterly comparison, interactive revenue grew $72.7 million primarily from our acquisition in late 2012 and subsequent growth of the DoubleDown Casino®. Social gaming revenues continue to improve as a result of increases in both average DAU (up 17%) and bookings per DAU (up 42%).

Similar to the quarterly comparison, IGTi real-money wagering revenues decreased 6%, primarily due to a decrease of $8.1 million related to certain European online turnkey and poker closures, partially offset by an increase in online casino revenues of $6.4 million. Also, mobile generated 21% of online casino revenues compared to 13% in the prior year period.

Gross margin growth was primarily due to the favorable contribution from DoubleDown. Amortization expense for DoubleDown acquired developed technology totaled $4.6 million in the 2013 period and $2.3 million in the prior year period.

OPERATING EXPENSES

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Selling, general and administrative	$110.7	$109.3	$(1.4)	-1%	$210.9	$199.1	$(11.8)	-6%
Research and development	58.1	55.3	(2.8)	-5%	112.5	102.2	(10.3)	-10%
Depreciation and amortization	19.7	19.3	(0.4)	-2%	38.7	34.7	(4.0)	-12%
Subtotal SG&A-R&D-D&A	188.5	183.9	(4.6)	-3%	362.1	336.0	(26.1)	-8%
Percent of revenue	31%	34%			32%	34%		
Contingent acquisition-related costs	21.9	11.7	(10.2)	*	39.3	11.7	(27.6)	*
Impairment	1.6	-	(1.6)	*	1.6	-	(1.6)	*
Total operating expenses	$212.0	$195.6	$(16.4)	-8%	$403.0	$347.7	$(55.3)	-16%

Second quarters ended March 31, 2013 and 2012 compared

Operating expenses increased 8%, primarily due to additional investment in interactive business and technology. Interactive operating expenses increased $15.8 million, largely due to an increase of $10.8 million in acquisition-related charges. For the 2013 and 2012 second quarters, acquisition-related charges, primarily related to DoubleDown, totaled $26.4 million (contingent earn-out of $14.1 million, contingent retention of $7.8 million, and amortization of acquired intangibles of $4.5 million) and $15.6 million (contingent retention of $11.7 million and amortization of acquired intangibles of $3.9 million), respectively. Factors that drive changes in the contingent acquisition-related costs are discussed in Note 8.

Additionally, changes in other operating expenses included increases of $4.6 million in bad debt provisions on certain customer receivables, $3.9 million for professional fees related to the proxy contest and $1.6 million for additional impairment of our Alabama notes receivable, primarily related to accrued unpaid property taxes on the associated property collateral. The 2012 second quarter included $4.5 million for acquisition-related professional fees, settlement charges of $3.1 million related to early cancellation of a distributor agreement, and $1.2 million of severance costs. See Note 19 of our Annual Report on Form 10-K for the year ended September 30, 2012 for additional information about our Alabama notes.

Six months ended March 31, 2013 and 2012 compared

Operating expenses increased 16%, primarily due to additional investment in interactive business and technology. Interactive operating expenses increased $49.4 million, largely due to an increase of $32.6 million in acquisition-related charges. For the first six months of 2013 and 2012, acquisition-related charges, primarily related to DoubleDown, totaled $48.2 million (contingent earn-out of $16.2 million, contingent retention of $23.1 million, and amortization of acquired intangibles of $8.9 million) and $15.6 million (contingent retention of $11.7 million and amortization of acquired intangibles of $3.9 million), respectively.

Additionally, changes in other operating expenses included increases of $11.9 million in bad debt provisions on certain specific customer receivables, $3.9 million for professional fees related to the proxy contest and $1.6 million for additional impairment of our Alabama notes receivable, primarily related to accrued unpaid property taxes on the associated property collateral. The 2012 first half included $5.7 million for acquisition related professional fees and settlement charges of $3.1 million related to early cancellation of a distributor agreement. See Note 19 of our Annual Report on Form 10-K for the year ended September 30, 2012 for additional information about our Alabama notes.

OTHER INCOME (EXPENSE)

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Interest Income	$11.1	$10.8	$0.3	3 %	$22.4	$22.9	$(0.5)	-2 %
WAP investments	4.6	5.1	(0.5)	-10 %	9.2	10.3	(1.1)	-11 %
Receivables and investments	6.5	5.7	0.8	14 %	13.2	12.6	0.6	5 %
Interest Expense	(30.3)	(30.0)	(0.3)	-1 %	(62.0)	(60.1)	(1.9)	-3 %
WAP jackpot liabilities	(4.5)	(5.1)	0.6	12 %	(9.2)	(10.2)	1.0	10 %
Borrowings	(17.0)	(16.9)	(0.1)	-1 %	(35.3)	(34.0)	(1.3)	-4 %
Convertible debt equity discount	(8.8)	(8.0)	(0.8)	-10 %	(17.5)	(15.9)	(1.6)	-10 %
Other, including gain (loss)	(2.5)	(2.0)	(0.5)	*	(2.7)	(4.8)	2.1	*
Total other income (expense), net	$(21.7)	$(21.2)	$(0.5)	-2 %	$(42.3)	$(42.0)	$(0.3)	-1 %

Total other income (expense) was comparable for the second quarters and six months ended March 31, 2013 and 2012. 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.

INCOME TAX PROVISION (See Note 12)

	Periods Ended March 31,					
	Second Quarters			Six Months		
	2013	2012	Change	2013	2012	Change
Income tax provision	$ 29.4	$ 34.4	$ 5.0	$ 61.9	$ 63.2	$ 1.3
Effective tax rate	27.3 %	35.5 %	8.2pp	30.1 %	35.9 %	5.8pp

Our 2013 effective tax rate decreased primarily due to an increase in our manufacturing deduction, and certain favorable discrete tax items of $5.9 million, which included expiration of the statute of limitations in foreign jurisdictions and the retroactive reinstatement of the R&D tax credit. The 2012 provision was negatively impacted by losses in foreign jurisdictions for which there were no associated tax benefits and the expiration of the R&D tax credit.

Differences between our effective tax rate and the US federal statutory rate of 35% principally result from the geographical distribution of taxable income, differences between the book and tax treatment of certain permanent items, and changes in UTBs.

BUSINESS SEGMENT RESULTS (See Note 15)

NORTH AMERICA SEGMENT RESULTS

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Total Revenues	$ 475.7	$ 415.5	$ 60.2	14 %	$ 885.0	$ 738.2	$ 146.8	20 %
Gross Margin	57 %	59 %	(2)	pp	58 %	58 %	-	pp
Operating Income	$ 124.1	$ 123.1	$ 1.0	1 %	$ 236.5	$ 215.7	$ 20.8	10 %
Margin	26 %	30 %	(4)	pp	27 %	29 %	(2)	pp

Second quarters ended March 31, 2013 and 2012 compared

North America revenues improved 14% driven by increases in product sales of $39.8 million and interactive of $33.2 million, partially offset by a decline in gaming operations of $12.8 million. Gross margin decreased due to lower margin in product sales, partially offset by improvement in gaming operations and interactive margins.

Operating income improved slightly with increased revenues. Operating margin decreased primarily due to lower gross margin and higher operating expenses, primarily due to increases of $6.3 million for acquisition-related charges primarily related to DoubleDown, $3.8 million in bad debt provisions on certain customer receivables and $1.6 million of Alabama note receivable impairment.

Six months ended March 31, 2013 and 2012 compared

North America revenues improved 20% driven by increases in product sales of $95.6 million and interactive of $75.0 million, partially offset by a decline in gaming operations of $23.8 million. Gross margin was flat as improvement in gaming operations and interactive margins offset decline in product sales margin.

Operating income improved 10% with increased revenues. Operating margin decreased primarily due to higher operating expenses, primarily due to increases of $29.2 million for acquisition-related charges primarily related to DoubleDown, $7.6 million in bad debt provisions on certain customer receivables and $1.6 million of Alabama note receivable impairment.

NORTH AMERICA GAMING OPERATIONS

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues	$ 220.3	$ 233.1	$ (12.8)	-5 %	$ 428.8	$ 452.6	$ (23.8)	-5 %
Gross margin	60 %	59 %	1	pp	61 %	59 %	2	pp
Installed base (units '000)	42.6	42.7	(0.1)	-	42.6	42.7	(0.1)	-
MegaJackpots® (premium brand)	22.7	24.5	(1.8)	-7 %	22.7	24.5	(1.8)	-7 %

Lease (CDS, racino, other)	19.9	18.2	1.7	9 %	19.9	18.2	1.7	9 %
Yield (average revenue per unit)	$ 56.55	$ 60.01	$ (3.46)	-6 %	$ 54.77	$ 59.50	$ (4.73)	-8 %

Second quarters ended March 31, 2013 and 2012 compared

North America gaming operations revenues decreased 5%, primarily due to lower Megajackpots® revenue. Gross margin improvement was primarily due to lower jackpot expense and reduced depreciation associated with decreased machine builds, as well as an increased mix of lower-yield/higher-margin games. Installed base decreased 100 units due to a decline in MegaJackpots® units partially offset by additions in lease operations. Yield decreased 6% primarily due to lower performance, most significant in MegaJackpots® WAP games, as well as a higher concentration of installed base in lower-yield units.

Six months ended March 31, 2013 and 2012 compared

North America gaming operations revenues decreased 5%, primarily due to lower Megajackpots® revenue partially offset by increased lease operations revenues. Gross margin improvement, installed base decline, and the 8% decrease in yield were driven by the same factors affecting the quarterly comparison.

NORTH AMERICA PRODUCT SALES

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues	$200.6	$160.8	$39.8	25 %	$359.5	$263.9	$95.6	36 %
Machines	148.7	101.4	47.3	47 %	250.5	160.5	90.0	56 %
Non-machine (systems, parts, other)	51.9	59.4	(7.5)	-13 %	109.0	103.4	5.6	5 %
Gross margin	53 %	57 %	(4) pp		54 %	55 %	(1) pp	
Machine units recognized ('000)	11.1	6.8	4.3	63 %	18.3	10.6	7.7	73 %
Machine ASP ('000)	$13.4	$14.9	$(1.5)	-10 %	$13.7	$15.1	$(1.4)	-9 %
Machine units shipped ('000)	11.1	6.7	4.4	66 %	18.0	10.2	7.8	76 %
New/expansion	2.7	1.7	1.0	59 %	4.4	2.4	2.0	83 %
Replacement	8.4	5.0	3.4	68 %	13.6	7.8	5.8	74 %

Second quarters ended March 31, 2013 and 2012 compared

Revenues from North America product sales grew 25% driven primarily by increased VLT machine sales, as well as new casino openings in Ohio. Machine units recognized increased 63%, primarily driven by VLT machines, with 3,500 replacement units in Canada and 600 new units in Illinois. Non-machine revenues decreased 13%, primarily due to lower theme conversion sales. Machine ASP decreased 10% primarily due to targeted promotional discounting and a higher mix of lower-priced VLT machines. Gross margin decreased primarily due to targeted promotional activity, as well as a lower mix of higher margin non-machine sales and increased non-standard manufacturing costs.

Six months ended March 31, 2013 and 2012 compared

Revenues from North America product sales grew 36% driven primarily by increased VLT machine sales, as well as new casino openings in Ohio. Machine units recognized increased 73%, primarily driven by VLT machines, with 5,100 replacement units in Canada and 1,800 new units in Illinois. Non-machine revenues increased 5%, primarily due to an increase of $12.0 million in IP license fees, in part due to a patent royalty settlement of $5.0 million. Machine ASP and gross margin decreases were driven by the same factors affecting the quarterly comparison.

NORTH AMERICA INTERACTIVE

	Periods Ended March 31,													
	Second Quarters							Six Months						
	2013		2012		Change			2013		2012		Change		
Revenues	$ 54.8		$ 21.6		$ 33.2	154	%	$ 96.7		$ 21.7		$ 75.0	346	%
Social gaming	54.3		21.3		33.0	155	%	95.6		21.3		74.3	349	%
IGTi	0.5		0.3		0.2	67	%	1.1		0.4		0.7	175	%
Gross margin	61	%	58	%	3	pp		61	%	58	%	3	pp	
DoubleDown average user statistics														
Daily active users (DAU) ('000)	1,690		1,350		340	25	%	1,575		1,350		225	17	%
Monthly active users (MAU) ('000)	6,276		4,975		1,301	26	%	5,596		4,975		621	12	%
Bookings per DAU (0.00)	$ 0.37		$ 0.24		$ 0.13	54	%	$ 0.34		$ 0.24		$ 0.10	42	%

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

Second quarters ended March 31, 2013 and 2012 compared

North America interactive revenues grew $33.2 million, primarily as a result of our acquisition in late January 2012 and subsequent growth of the DoubleDown Casino®. Social gaming revenues continue to improve as a result of increases in both average DAU (up 25%) and bookings per DAU (up 54%). These improvements were driven primarily by the introduction of IGT content to the DoubleDown Casino® and overall growth in desktop and mobile platform applications. Gross margin growth was primarily the result of the favorable contribution from DoubleDown.

Six months ended March 31, 2013 and 2012 compared

Consistent with the quarterly comparison, North America interactive revenue grew $75.0 million primarily as a result of DoubleDown's added contribution. Social gaming revenues continue to improve with increases in both average DAU (up 17%) and bookings per DAU (up 42%). Similar to the quarterly comparison, IGTi real-money wagering revenue increased $0.7 million and gross margin growth was due to the favorable contribution from DoubleDown.

INTERNATIONAL SEGMENT RESULTS

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Total Revenues	$ 124.3	$ 125.7	$ (1.4)	-1 %	$ 245.2	$ 248.6	$ (3.4)	-1 %
Gross Margin	55 %	56 %	(1)	pp	55 %	56 %	(1)	pp
Operating Income	$ 32.2	$ 27.9	$ 4.3	15 %	$ 60.5	$ 59.9	$ 0.6	1 %
Margin	26 %	22 %	4	pp	25 %	24 %	1	pp

Second quarters ended March 31, 2013 and 2012 compared

International revenues declined 1%, primarily due to changes in foreign currency exchange, which negatively impacted revenues by $1.2 million. Gross margin decline was primarily due to lower gross margins in gaming operations and product sales, partially offset by improved interactive gross margin. Operating income and operating margin improvement was primarily due to lower operating expenses, primarily attributable to the closures of certain interactive operations in Europe and prior year charges of $3.1 million related to a distributor cancellation settlement.

Six months ended March 31, 2013 and 2012 compared

International revenues declined 1%, due to decreases of $3.7 million in product sales and $2.3 million in interactive, partially offset by an increase of $2.6 million in gaming operations. Changes in foreign currency exchange negatively impacted revenues by $1.5 million, most significant in gaming operations. Gross margin decline was primarily due to lower gross margins in gaming operations and product sales, partially offset by improved interactive gross margin.

Operating income and operating margin improved slightly due to lower operating expenses, primarily attributable to the closures of certain interactive operations in Europe, mostly offset by an increase of $4.3 million in bad debt provisions. Additionally, the prior year period included charges of $3.1 million related to a distributor cancellation settlement.

INTERNATIONAL GAMING OPERATIONS

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues	$34.0	$33.0	$1.0	3 %	$68.1	$65.5	$2.6	4 %
Gross margin	69 %	75 %	(6)	pp	69 %	74 %	(5)	pp
Installed base (units '000)	14.1	13.4	0.7	5 %	14.1	13.4	0.7	5 %
MegaJackpots® (Premium brand)	3.3	3.1	0.2	6 %	3.3	3.1	0.2	6 %
Lease	10.8	10.3	0.5	5 %	10.8	10.3	0.5	5 %
Yield (average revenue per unit)	$26.87	$27.51	$(0.64)	-2 %	$26.97	$27.25	$(0.28)	-1 %

Second quarters ended March 31, 2013 and 2012 compared

International gaming operations revenues increased 3% primarily due to installed base growth of 5%. Gross margin decreased primarily due to higher costs, including depreciation and royalties related to the new games in our installed base, and unfavorable changes in foreign exchange rates. Installed base grew 5% primarily driven by an increase in lease operations units. Yield declined 2%, primarily due to lower performance in MegaJackpots® games and unfavorable changes in foreign exchange rates.

Six months ended March 31, 2013 and 2012 compared

Consistent with the quarterly comparison, gaming operations revenues increased 4% on installed base growth, gross margin decreased on higher costs and unfavorable exchange rates, and yield declined 1% due to lower performance and unfavorable exchange rates.

INTERNATIONAL PRODUCT SALES

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues	$ 78.4	$ 80.0	$ (1.6)	-2 %	$ 154.2	$ 157.9	$ (3.7)	-2 %
Machines	53.7	59.7	(6.0)	-10 %	109.3	116.3	(7.0)	-6 %
Non-machine (systems, parts, other)	24.7	20.3	4.4	22 %	44.9	41.6	3.3	8 %
Gross margin	49 %	50 %	(1) pp		48 %	49 %	(1) pp	
Machine units recognized ('000)	3.2	3.4	(0.2)	-6 %	6.7	6.9	(0.2)	-3 %
Machine ASP ('000)	$ 16.6	$ 17.6	$ (1.0)	-6 %	$ 16.3	$ 16.9	$ (0.6)	-4 %
Machine units shipped ('000)	3.2	3.8	(0.6)	-16 %	5.7	6.8	(1.1)	-16 %
New/expansion	1.0	2.0	(1.0)	-50 %	1.9	3.3	(1.4)	-42 %
Replacement	2.2	1.8	0.4	22 %	3.8	3.5	0.3	9 %

Second quarters ended March 31, 2013 and 2012 compared

International product sales revenues declined 2%, primarily due to a 6% decrease in machine units recognized, partially offset by a 22% increase in non-machine revenues from systems. ASP decreased 6% primarily due to higher machine discounts and unfavorable changes in foreign exchange rates. Gross margin decline was primarily due to lower ASP and increased non-standard manufacturing costs.

Six months ended March 31, 2013 and 2012 compared

Similar to the quarterly comparison, international product sales revenues declined 2% on a 3% decrease in machine units recognized, partially offset by an 8% increase in non-machine revenues from theme conversions and systems sales. Gross margin decline was primarily due to reduced ASP, which decreased 4% primarily due to higher discounts.

INTERNATIONAL INTERACTIVE

	Periods Ended March 31,							
	Second Quarters				Six Months			
	2013	2012	Change		2013	2012	Change	
Revenues - IGTi	$11.9	$12.7	$(0.8)	-6 %	$22.9	$25.2	$(2.3)	-9 %
Gross margin	58 %	47 %	11 pp		54 %	49 %	5 pp	

Second quarters ended March 31, 2013 and 2012 compared

International IGTi revenues declined 6%, primarily due to a decrease of $4.1 million related to the closures of certain European online turnkey and poker operations. The decrease from closures was partially offset by an increase in online casino revenues of $2.9 million, primarily related to a 27% increase in the number of customers. Gross margin improvement was attributable to the realignment of certain player marketing costs, reduced tax assessments, and an increased mix of higher-margin IGT rgs® revenues.

Six months ended March 31, 2013 and 2012 compared

Similar to the quarterly comparison, International IGTi revenues declined 9% primarily due to a decrease of $8.1 million related to the closures, partially offset by an increase in online casino revenues of $6.4 million. Gross margin improved based on the same factors affecting the quarterly comparison.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES OF LIQUIDITY

At March 31, 2013, our principal sources of liquidity were cash and equivalents and amounts available under our revolving bank credit facility discussed below under CREDIT FACILITIES AND INDEBTEDNESS. Other potential sources of capital include, but are not limited to, the issuance of debt and 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 into the foreseeable future.

Selected Financial Information and Statistics

	March 31, 2013	September 30, 2012	Increase (Decrease)
Cash and equivalents	$236.5	$206.3	$30.2
Accounts receivable, net	361.7	346.6	15.1
Inventories	89.4	92.9	(3.5)
Working Capital	663.9	633.0	30.9
Trailing-twelve month statistics, excluding discontinued operations:			
Days sales outstanding (excluding contracts and notes)	58	59	(1)
Inventory turns	5.5	4.8	0.7

Cash and equivalents increased $30.2 million during the six months ended March 31, 2013 primarily due to cash generated from operations of $182.5 million and net proceeds of $56.3 million, collectively, from investments, loans, and assets. These increases were primarily offset by cash used for share repurchases of $75.1 million, capital expenditures of $56.4 million, dividends paid of $34.7 million, financing payments of $27.9 million for acquisition-related contingent earn-out accrued at acquisition, and net debt repayments of $20.0 million.

Payments for acquisition-related contingent consideration during the six months ended March 31, 2013 totaled $74.8 million, comprised of $29.7 million for retention and $45.1 million for earn-out. Payments of $27.9 million related to earn-out accrued at acquisition were included in financing cash flows. The remaining amount of contingent consideration payments was related to amounts accrued subsequent to acquisition and included in operating cash flows within the net change in accounts payable and other liabilities.

Foreign subsidiary operations held 43% of our cash and equivalents at March 31, 2013 and 47% at September 30, 2012. Restricted cash and investments, as well as jackpot annuity investments, are used primarily for funding jackpot winner payments and online player deposits.

Inventory turns increased with lower inventory due to customer deliveries in the first half of 2013. Days sales outstanding decreased slightly as revenues increased at a higher rate than accounts receivable.

Cash Flows Summary

Six Months Ended March 31,	2013	2012	Favorable (Unfavorable)
Operations	$ 182.5	$ 176.7	$ 5.8

Investing	(0.1)	(295.1)	295.0
Financing	(149.4)	(74.0)	(75.4)
Effects of exchange rates	(2.8)	3.5	(6.3)
Net Change	$ 30.2	$ (188.9)	$ 219.1

Operating cash flows increased primarily due to higher earnings, partially offset by $46.9 million of payments for acquisition-related contingent consideration, comprised of $29.7 million for retention and $17.2 million for earn-out accrued subsequent to acquisition, included within the net change in accounts payable and accrued liabilities.

Changes in operating assets and liabilities used cash of $59.4 million related to variations in business volume and payment timing. Increased cash used of $81.8 million for accounts payable and accrued liabilities (including payments of acquisition-related contingent consideration), $18.8 million for jackpot liabilities and $9.5 million for income taxes was partially offset by cash used of $24.0 million for inventory and $19.4 million for other assets, as well as increased cash of $7.3 million generated from receivables.

Reduced cash used for investing was primarily due to $233.0 million less cash used for investment in business acquisitions and lower capital expenditures, partially offset by decreased proceeds from the sale of fixed assets.

Six Months Ended March 31,	2013	2012	Increase (Decrease)
Property, plant and equipment	$8.1	$34.5	$(26.4)
Gaming operations equipment	48.1	87.1	(39.0)
Intellectual property	0.2	2.0	(1.8)
Total capital expenditures	$56.4	$123.6	$(67.2)

Increased cash used for financing was primarily due to acquisition-related contingent consideration paid of $27.9 million for earn-out accrued at acquisition, an increase of $25.0 million used for share repurchases and an increase of $20.0 million for net debt repayments.

During the first half of 2013, we repurchased 2.5 million shares in the first quarter under an ASR prepaid in June 2012 and 4.4 million shares for $75.1 million in the second quarter for a total of 6.9 million shares acquired. During the first half of 2012, we repurchased 3.2 million shares for $50.1 million. See Note 14 for more information about the ASR.

CREDIT FACILITIES and INDEBTEDNESS (See Note 10)

At March 31, 2013, $120.0 million was outstanding on our $750.0 million revolving credit facility, $606.8 million was available, and $23.2 million was reserved for letters of credit and performance bonds. We were in compliance with all debt covenants at March 31, 2013, with an interest coverage ratio of 12.3:1 and a net funded debt leverage ratio of 2.2:1.

On April 23, 2013, we entered into an amended and restated credit agreement, increasing the available revolving line of our credit facility from $750.0 million to $1.0 billion, of which up to $50.0 million is available for letters of credit and up to $50.0 million is available for swing line borrowing. The former facility was terminated in conjunction with the issuance of the new credit facility. Subject to lenders' consent, the facility may be increased by $250.0 million at any time up to 60 days prior to maturity. At maturity on April 23, 2018, all amounts outstanding will be immediately due and payable. The maturity may be extended upon our request for one year on each of the first and second closing date anniversaries, presuming no default exists.

The new facility interest rates and facility fees 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. At the initial pricing level of Baa2/BBB, the interest rate was LIBOR plus 100 bps and the facility fee was 17.5 bps. Additional debt issuance costs of approximately $3.3 million were capitalized and together with $8.2 million of previously deferred offering costs remaining from the former facility will be amortized to interest expense over the new facility term.

Substantially the same as the former credit facility, the new credit facility carries no limitations on shares repurchases or dividend payments provided no default exists and includes the following covenants (all terms as defined in the facility documents):

- a minimum ratio of 3.0 adjusted EBITDA to interest expense (interest coverage ratio)
- a maximum ratio of 3.5 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 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.

FINANCIAL CONDITION

	March 31, 2013	September 30, 2012	Increase (Decrease)
Assets	$4,199.7	$4,285.1	$(85.4)
Liabilities	2,957.2	3,087.3	(130.1)
Total Equity	1,242.5	1,197.8	44.7

Changes During The Six Months Ended March 31, 2013

Total assets decreased primarily due to reductions in net property, plant and equipment of $44.2 million, net intangible assets of $31.8 million, customer receivables and financing of $25.7 million and jackpot annuity investments of $17.8 million, partially offset by increases in cash and investments of $24.1 million and taxes receivable and deferred taxes of $17.2 million.

Liabilities decreased $86.7 million in other liabilities, $31.9 million in jackpot liabilities and $20.9 million in accrued employee benefits. Total equity increased primarily due to 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 Note 11.

RECENTLY ISSUED ACCOUNTING STANDARDS

At March 31, 2013, there were no recently issued accounting standards that are expected to have a material impact on 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, and royalties
- 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, 2012.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company’s market risk profile has not changed materially during the first six months of 2013 since those presented in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2012.

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 reports filed under the Exchange Act 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 the CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosures. 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 quarter that materially affected, or are 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. 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, 2012, and our Quarterly Report on From 10-Q for the quarter ended December 31, 2012.

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

Demand for our products and services depends largely upon favorable conditions in the gaming industry, which is highly sensitive to players' disposable incomes and gaming activities. Discretionary spending on entertainment activities could further decline for reasons beyond our control, such as 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, including in connection with customer financing we provide to customers, which increased in amount during fiscal 2012 and the first six months of fiscal 2013 as a result of competitive marketplace and a challenging economic recovery.

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

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

- licenses and/or permits
- findings of suitability

- documentation of qualifications, including evidence of financial stability
- other required approvals for companies who manufacture or distribute gaming equipment and services, including but not limited to approvals for new products
- 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 be unable to obtain or maintain all necessary registrations, licenses, permits or approvals, and could incur fines or experience delays related to the licensing process which could adversely affect our operations and our ability to retain key employees.

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

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

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

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

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

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

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

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

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

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

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

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

The gaming industry is characterized by dynamic customer demand and technological advances, both for land-based and online gaming products. As a result, we must continually introduce and successfully market new themes and technologies in order to remain competitive and effectively stimulate customer demand. 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: platform hardware, platform software, online services, content (game) design and casino software systems. Because our newer products are generally more technologically sophisticated than those we have produced in the past, we must continually refine our design, development and delivery capabilities across all channels to meet the needs of our product innovation. If we cannot efficiently adapt our processes and infrastructure to meet the needs of our product innovations, our business could be negatively impacted.

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

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

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

- social, political or economic instability
- additional costs of compliance with international laws or unexpected changes in regulatory requirements
- the effects that evolving regulations regarding data privacy may have on our online operations
- tariffs and other trade barriers
- volatility of financial markets and 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

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.

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

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

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

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

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

Our success depends largely on recruiting and retaining talented employees. 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.

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

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

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

Our online social gaming casino offering is conducted almost entirely through Facebook, and our business and our growth prospects would suffer if we fail to maintain a good relationship with Facebook, or if Facebook were to alter the terms of our relationship.

DoubleDown Casino®, which is our online social gaming casino offering, operates almost entirely through Facebook. Consequently, our operating platform, growth prospects and future revenues from this online offering are dependent on our relationship with Facebook. While DoubleDown has historically maintained a good relationship with Facebook, our online social gaming casino offering would suffer if we are unable to continue this relationship in the future.

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

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

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

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

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

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.

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

Changes in prime and/or treasury and agency interest rates during a given period cause fluctuations in jackpot expense largely due to the revaluation of future winner liabilities. When rates increase, jackpot liabilities are reduced as it costs less to fund the liability. However, when interest rates decline the value of the liability (and related jackpot expense) increases because the cost to fund the liability increases. Our results may continue to be negatively impacted by 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 not be able to generate sufficient cash flows to meet our debt service obligations.

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

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

As we introduce new products and transactions become increasingly complex, additional analysis and judgment is required to account for and recognize revenues in accordance with generally accepted accounting principles. Transactions may include multiple element arrangements, software components, and/or unique new product offerings, such as our online social casino games at our DoubleDown Casino®, and applicable accounting principles or regulatory product approval delays could further change the timing of revenue recognition 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.

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

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

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

We invest in and/or provide financing for expansion or construction of gaming locations and other business purposes, particularly in our international operations. Such investment and financing activities subject us to increased credit risk in certain regions, which could be exacerbated by 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

The purpose of our common stock repurchase plan is to increase shareholder value and to reduce outstanding share count dilution. On June 13, 2012, our Board of Directors authorized share repurchases of up to $1.0 billion with no expiration date specified. We may use open market or privately negotiated transactions, as well as Rule 10b5-1 trading plans, depending on market conditions and other factors. See Note 14 for a description of our $400.0 million ASR transaction executed in June 2012 and completed in December 2012.

2013 Second Quarter	(a) 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
December 30, 2012 - January 26, 2013	0.1	$	15.11	0.1	$	598.2
January 27 - February 23, 2013	-	$	-	-		598.2
February 24 - March 30, 2013	4.3	$	17.08	4.3	$	525.0
Total	4.4	$	17.02	4.4		

(a) Includes 5,500 of shares tendered by employees for net-share settlement of tax withholding obligations upon vesting

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

3.1 Seventh Amended and Restated Code of Bylaws of International Game Technology, dated March 4, 2013 (incorporated by reference to Exhibit 3.1 to Registrant's Report on Form 8-K filed on March 8, 2013)

10.1 International Game Technology 2002 Stock Incentive Plan, as amended January 5, 2013 (incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 8-K filed on March 11, 2013)

10.2 Amended and Restated Credit Agreement, dated as of April 23, 2013 with The Royal Bank of Scotland plc. as Administrative Agent and Swing Line Lender, Wells Fargo Bank, N.A., as Syndication Agent and L/C Issuer, Bank of America, N.A., JPMorgan Chase Bank, N.A., Mizuho Corporate Bank, Ltd., Union Bank, National Association and U.S. Bank National Association, as Co-Documentation Agents, with Wells Fargo Securities, LLC, Union Bank, N.A. and RBS Securities Inc., as Joint Lead Arrangers and Joint Lead Book Runners, and a syndicate of other lenders (incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 8-K filed on April 25, 2013)

10.3 IGT Directors' Compensation Policy and Share Ownership Guidelines, effective October 2, 2011, as amended

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

Signatures

Pursuant to the requirements 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: May 8, 2013

INTERNATIONAL GAME TECHNOLOGY

By: /s/ John Vandemore
John Vandemore
Chief Financial Officer and Treasurer
(Principal Financial Officer)