

INTERNATIONAL GAME TECHNOLOGY

Form 10-Q

February 09, 2015

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended January 3, 2015

(Presented as December 31, 2014)

OR

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

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

Commission File Number 001-10684

International Game Technology

(Exact name of registrant as specified in its charter)

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  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  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

Accelerated filer

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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

The number of shares outstanding of each of the registrant's classes of common stock, as of February 4, 2015:

248.7 million shares of common stock at \$.00015625 par value

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

Abbreviation/term	Definition
Fiscal dates -- as presented	Fiscal dates--actual
December 31, 2014	January 3, 2015
December 31, 2013	December 28, 2013
September 30, 2014	September 27, 2014
AOCI	accumulated other comprehensive income (loss)
APIC	additional paid-in-capital
ASP	average sales price per machine unit
ASU	Accounting Standards Update
bps	basis points
CDS	central determination system
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
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FV	fair value
GAAP	generally accepted accounting principles
GTECH	GTECH S.p.A.
IGT, we, our, the Company	International Game Technology and its consolidated entities
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
pp	percentage points
R&D	research and development
SEC	Securities and Exchange Commission
SIP	2002 Stock Incentive Plan
SG&A	sales, general and administrative
SPA	sale and purchase agreement (dated April 26, 2011)
TITO	Ticket-In-Ticket-Out
UK	United Kingdom
US	United States
UTBs	unrecognized tax benefits
VIE	variable interest entity
VLT	video lottery terminal
WAP	wide area progressive
Yield	average revenue per unit per day
*	not meaningful (in tables)

PART I – FINANCIAL INFORMATION

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(See Accompanying Notes)

First Quarters Ended December 31, (In millions, except per share amounts)	2014	2013
<b>REVENUES</b>		
Gaming operations	\$211.1	\$223.0
Product sales	148.0	243.6
Interactive	91.5	74.6
Total	450.6	541.2
<b>COSTS AND OPERATING EXPENSES</b>		
Cost of gaming operations	79.8	86.8
Cost of product sales	77.0	116.7
Cost of interactive	35.4	27.9
Selling, general and administrative	108.5	117.8
Research and development	57.3	60.3
Depreciation and amortization	13.7	16.7
Contingent acquisition-related costs	2.5	11.3
Impairment, restructuring, and merger-related	12.9	-
Total	387.1	437.5
<b>OPERATING INCOME</b>	<b>63.5</b>	<b>103.7</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	9.3	10.1
Interest expense	(21.3 )	(36.4 )
Other	0.2	(1.9 )
Total	(11.8 )	(28.2 )
<b>INCOME BEFORE TAX</b>	<b>51.7</b>	<b>75.5</b>
Income tax provision (benefit)	16.7	(3.7 )
<b>NET INCOME</b>	<b>\$35.0</b>	<b>\$79.2</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Currency translation adjustment	(15.3 )	(2.3 )
Unrealized loss, net of tax	(0.2 )	(0.2 )
<b>COMPREHENSIVE INCOME</b>	<b>\$19.5</b>	<b>\$76.7</b>
<b>EARNINGS PER SHARE</b>		
Basic	\$0.14	\$0.31
Diluted	0.14	0.31
<b>CASH DIVIDENDS DECLARED PER SHARE</b>	<b>\$0.11</b>	<b>\$0.11</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>		
Basic	247.6	252.6
Diluted	249.9	255.3





## CONSOLIDATED BALANCE SHEETS

(See Accompanying Notes)

	December 31,	
	2014	September 30, 2014
	(In millions, except par value)	
<b>ASSETS</b>		
Cash and equivalents	\$ 201.6	\$ 255.1
Restricted cash and investment securities	64.2	57.2
Restricted cash and investment securities of VIEs	1.8	2.1
Jackpot annuity investments	41.1	41.9
Jackpot annuity investments of VIEs	10.8	11.1
Accounts receivable, net	280.5	329.3
Current maturities of contracts and notes receivable, net	183.4	200.9
Inventories	72.0	71.4
Deferred income taxes	97.6	98.3
Other assets and deferred costs	139.7	153.8
Total current assets	1,092.7	1,221.1
Property, plant and equipment, net	405.2	412.7
Jackpot annuity investments	209.8	211.3
Jackpot annuity investments of VIEs	25.7	25.4
Contracts and notes receivable, net	97.1	115.5
Goodwill	1,453.9	1,461.6
Other intangible assets, net	70.8	80.9
Deferred income taxes	137.6	142.0
Other assets and deferred costs	315.8	319.0
TOTAL ASSETS	\$ 3,808.6	\$ 3,989.5
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Short-term debt	\$ -	\$ -
Accounts payable	66.3	77.7
Jackpot liabilities, current portion	117.5	117.5
Accrued employee benefits	9.4	31.4
Accrued income taxes	0.9	0.9
Dividends payable	-	27.2
Other accrued liabilities	241.1	290.1
Total current liabilities	435.2	544.8
Long-term debt	1,810.2	1,878.6
Jackpot liabilities	259.5	261.6
Other liabilities	110.4	106.9
TOTAL LIABILITIES	2,615.3	2,791.9
COMMITMENTS AND CONTINGENCIES	-	-
<b>SHAREHOLDERS' EQUITY</b>		
Common stock: \$0.00015625 par value; 1,280.0 shares authorized; 276.6 and 274.7 issued; 248.7 and 247.3 outstanding	-	-
Additional paid-in capital	1,484.5	1,472.7

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Treasury stock at cost: 27.9 and 27.4 shares	(494.6	)	(486.5	)
Retained earnings	234.1		226.6	
Accumulated other comprehensive income	(30.7	)	(15.2	)
TOTAL EQUITY	1,193.3		1,197.6	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,808.6		\$ 3,989.5	

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(See Accompanying Notes)

Three Months Ended December 31,	2014	2013
	(In millions)	
<b>OPERATING</b>		
Net income	\$35.0	\$79.2
Adjustments:		
Depreciation and amortization	38.3	51.3
Acquisition-related contingent earn-out costs	2.4	4.5
Discounts and deferred issuance costs	0.8	11.6
Share-based compensation	8.7	9.0
Excess tax benefits from employee stock plans	(2.6 )	(6.4 )
Other non-cash items	4.5	8.0
Changes in operating assets and liabilities, excluding acquisitions:		
Receivables	73.4	(13.2 )
Inventories	(1.2 )	15.6
Accounts payable and accrued liabilities	(80.1 )	(51.0 )
Jackpot liabilities	(5.7 )	(16.6 )
Income taxes, net of employee stock plans	8.4	(11.4 )
Other assets and deferred costs	21.0	(4.5 )
Net operating cash flows	102.9	76.1
<b>INVESTING</b>		
Capital expenditures	(24.6 )	(24.6 )
Proceeds from assets sold	6.0	3.3
Investment securities, net	-	(70.6 )
Jackpot annuity investments, net	6.1	9.0
Changes in restricted cash	(6.8 )	(0.8 )
Loans receivable payments received	-	6.4
Net investing cash flows	(19.3 )	(77.3 )
<b>FINANCING</b>		
Debt repayments	(75.0 )	-
Debt issuance costs	-	(0.5 )
Employee stock plan proceeds	1.2	1.9
Excess tax benefits from employee stock plans	2.6	6.4
Share repurchases, including net shares	(8.1 )	(211.0)
Dividends paid	(54.6 )	(25.9 )
Net financing cash flows	(133.9)	(229.1)
FOREIGN EXCHANGE RATES EFFECT ON CASH AND EQUIVALENTS	(3.2 )	(2.4 )
NET CHANGE IN CASH AND EQUIVALENTS	(53.5 )	(232.7)
BEGINNING CASH AND EQUIVALENTS	255.1	713.3
ENDING CASH AND EQUIVALENTS	\$201.6	\$480.6



## SUPPLEMENTAL CASH FLOWS INFORMATION

(See Accompanying Notes)

Three Months Ended December 31,	2014	2013
	(In millions)	
<b>INVESTMENT SECURITIES</b>		
Purchases	\$-	\$(99.5)
Proceeds from sale	-	28.9
Net	\$-	\$(70.6)
<b>JACKPOT FUNDINGS</b>		
Change in jackpot liabilities	\$(5.7 )	\$(16.6)
Jackpot annuity investment purchases	(4.0 )	(2.0 )
Jackpot annuity investment proceeds	10.1	11.0
Net change in jackpot annuity investments	6.1	9.0
Net jackpot funding	\$0.4	\$(7.6 )
<b>CAPITAL EXPENDITURES</b>		
Property, plant and equipment	\$(7.2 )	\$(7.6 )
Gaming operations equipment	(17.3)	(16.9)
Intellectual property	(0.1 )	(0.1 )
Total	\$(24.6)	\$(24.6)
<b>PAYMENTS</b>		
Interest	\$30.2	\$27.8
Income taxes	7.3	9.6
<b>NONCASH INVESTING AND FINANCING ITEMS</b>		
Accrued capital asset additions	\$(0.3 )	\$0.3
Interest accretion for jackpot annuity investments	3.8	4.1

## 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, and cost of interactive.

## Dividends

Due to timing, two quarterly dividends were paid during the 2015 first quarter.

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. Fiscal 2015 will contain 53 weeks and our results for the current first quarter contained 14 weeks versus 13 weeks in the prior year.

Fiscal Periods	As Presented	Actual
Current quarters	December 31, 2014	January 3, 2015
Prior year quarter	December 31, 2013	December 28, 2013
Prior year end	September 30, 2014	September 27, 2014

Our consolidated interim financial statements for the first quarter ended December 31, 2014 incorporate all of the accounts of International Game Technology, including all majority-owned or controlled subsidiaries and VIEs for which IGT is the primary beneficiary. All inter-company accounts and transactions were eliminated. These financial statements were prepared without audit on a basis consistent with the comparative prior year quarter ended December 31, 2013, and as appropriate, with the audited financial statements for the year ended September 30, 2014.

Certain information and footnote disclosures have been condensed or omitted in conformity with SEC and US GAAP guidance for interim financial statements. All adjustments of a normal recurring nature necessary to fairly state our consolidated results of operations, financial position, and cash flows have been included 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, 2014.

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](http://www.IGT.com)

references to years relate to our fiscal years ending September 30

current refers to our fiscal first quarter ended December 31, 2014

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 per share amounts and par value

discussion and analysis relates to results for the current fiscal periods as compared with the prior year fiscal periods

Use of Estimates

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.

#### PROPOSED MERGER

On July 15, 2014, we entered into a definitive merger agreement with GTECH S.p.A. for the acquisition of IGT by GTECH for \$6.4 billion, comprised of \$4.7 billion in cash and stock, along with the assumption of \$1.7 billion in net debt. Under the terms of the merger agreement, as amended on September 23, 2014, IGT and GTECH will combine under a newly formed holding company (HoldCo) domiciled in the UK that will apply for listing solely on the NYSE.

At the closing of the transaction, IGT shares will cease trading on the NYSE and GTECH shares will cease trading on the Borsa Italiana (MSE). IGT will survive as a wholly owned subsidiary of HoldCo, currently named Georgia Worldwide PLC, which will be renamed to a name to be identified by GTECH. HoldCo will maintain corporate headquarters in the UK and operating headquarters in Las Vegas, NV, Providence, RI and Rome, Italy.

At the effective time of the merger, each share of IGT common stock will be converted into the right to receive a combination of \$13.69 in cash, plus a number of ordinary shares of HoldCo equal to \$4.56 divided by the dollar value of a GTECH share prior to the transaction closing, subject to the calculation adjustments and limitations set forth in the merger agreement, as amended.

The merger agreement contains certain customary covenants regarding the operation of IGT's business during the period prior to the transaction closing, including, among others, limitations on IGT's ability to: (i) issue or grant shares of capital stock or other equity interests in IGT; (ii) acquire shares of capital stock or other equity interests in IGT; and (iii) incur new indebtedness or issue debt securities, in each case subject to certain exceptions.

Consummation of the merger is subject to certain closing conditions, including, without limitation: (i) IGT and GTECH shareholder approvals; (ii) expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and certain other antitrust approvals; (iii) certain gaming regulatory approvals; (iv) effectiveness of the HoldCo F-4; and (v) NYSE listing approval for the HoldCo shares. As of February 6, 2015, (i) GTECH shareholder approval has been obtained and the IGT special meeting of shareholders to approve the transaction is scheduled for February 10, 2015, (ii) early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, has been obtained, (iii) 15 out of 22 regulatory approvals have been granted, and (iv) the HoldCo F-4 has been declared effective. Consummation of the merger is currently expected during the second quarter of calendar 2015.

The merger agreement also contains certain termination rights for IGT and GTECH, such that under certain circumstances, IGT may be required to pay a termination fee of up to \$135.3 million or reimburse certain regulatory expenses incurred by GTECH, and GTECH may be required to pay a termination fee of up to \$270.6 million.

For additional information regarding the proposed merger transaction, including details about the terms and conditions of the merger agreement and related matters, refer to the IGT Proxy Statement/Prospectus dated January 2, 2015.

## RECENTLY ADOPTED ACCOUNTING STANDARDS OR UPDATES

### Business Combinations - Pushdown Accounting

In November 2014, the FASB issued an ASU allowing all acquired entities to choose whether or not to apply pushdown accounting reflecting the new basis of accounting of their assets and liabilities upon change of control. This ASU was effective for our 2015 first quarter and had no material impact on our financial statements.

### Presentation Of An Unrecognized Tax Benefit When A Net Operating Loss Carryforward Exists

In July 2013, the FASB issued an ASU requiring the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax position. This ASU was effective for our 2015 first quarter and had no material impact on our financial statements.

### 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 or no longer holds a controlling financial interest in a foreign entity. This ASU was effective prospectively for our 2015 first quarter and had no material impact on our



financial statements.

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### 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 was effective for our 2015 first quarter and had no material impact on our financial statements.

### RECENTLY ISSUED ACCOUNTING STANDARDS OR UPDATES--NOT YET ADOPTED

#### Uncertainties About An Entity's Ability To Continue As A Going Concern

In August 2014, the FASB issued an ASU to require management to evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for the twelve months following the date that financial statements are issued. The evaluation is similar to the assessment required to be performed by auditors under auditing standards and required for both interim and annual periods. This ASU will be effective for our 2018 first quarter and is not expected to have a material impact on our financial statements.

#### Share-based Payments With Performance Targets Achievable After The Service Period

In June 2014, the FASB issued an ASU to clarify that performance targets in share-based payments that affect vesting and can be achieved after the requisite service period should be accounted for as a performance condition. As such, the performance condition would not be reflected in the grant date FV estimate and compensation cost would be recognized over the service period if achievement of the performance condition is probable. This ASU is effective for our 2017 first quarter, but can be adopted earlier, and is not expected to have a material impact on our financial statements. Optional transition methods include (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and to all new or modified awards thereafter.

#### New Revenue Recognition Standard

In May 2014, the FASB issued an ASU establishing a new ASC Topic —Revenue From Contracts With Customers, which is a comprehensive new revenue recognition standard that will supersede virtually all existing revenue guidance. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation, and recognizing revenue in line with the pattern of transfer.

The standard will be effective for our 2018 first quarter and early adoption is not permitted. The standard allows for adoption under either "full retrospective" in which prior periods presented are recast under the new guidance or "modified retrospective" in which it would be applied only to the most current period presented along with a cumulative-effect adjustment at the date of adoption. The standard also requires extensive additional disclosures to provide greater insight into revenues recognized and deferred, including quantitative and qualitative information about significant judgments and changes in those judgments made to determine the timing and amount of revenues recognized. We are currently evaluating the impact that this standard will have on our financial statements.

#### Discontinued Operations

In April 2014, the FASB issued an ASU that raises the threshold for a disposal to qualify as discontinued operations, such that it must represent a strategic shift that has or will have a major effect on an entity's operations and financial results or an acquired business that is classified as held for sale at acquisition. This ASU also requires new disclosures for both discontinued operations and disposals of individually significant components that don't qualify as discontinued operations. This ASU will be effective for our 2016 first quarter and is not expected to have a material impact on our financial statements.

## 2. VARIABLE INTERESTS AND AFFILIATES

## VARIABLE INTEREST ENTITIES

## New Jersey Trusts

Regulation in New Jersey 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 \$38.3 million at December 31, 2014 and \$38.6 million at September 30, 2014.

## Latin America Distributor

In March 2012, we contracted with a third party distributor in Latin America to sell IGT products. The distributor was a VIE as it was 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. This arrangement was terminated by mutual agreement in January 2014. For the three months ended December 31, 2014, no revenues were recognized and ending receivables totaled \$3.3 million.

## 3. RECEIVABLES

## ACCOUNTS RECEIVABLE

	December 31, 2014	September 30, 2014
Allowances for Credit Losses	\$ 22.5	\$ 24.2

## CUSTOMER FINANCING—CONTRACTS AND NOTES

## Reconciliation of Allowances for Credit Losses

First Quarter Ended December 31,	2014	2013
Beginning balance	\$92.1	\$78.5
Charge-offs and other adjustments	(0.7)	-
Recoveries	-	-
Provisions	3.9	1.5
Ending balance	\$95.3	\$80.0
Current portion	\$89.3	\$73.2
Noncurrent portion	6.0	6.8

	December 31, 2014			September 30, 2014		
	<u>Contracts</u>	<u>Notes</u>	<u>Total</u>	<u>Contracts</u>	<u>Notes</u>	<u>Total</u>
Recorded Investment (principal and interest due, net of deferred interest and fees)						
Individually evaluated for impairment	\$31.3	\$75.5	\$106.8	\$28.3	\$75.5	\$103.8
Collectively evaluated for impairment	269.0	-	269.0	304.7	-	304.7
Total	\$300.3	\$75.5	\$375.8	\$333.0	\$75.5	\$408.5



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Allowances for Credit Losses	December 31, 2014			September 30, 2014		
	<u>Contract</u>	<u>Notes</u>	<u>Total</u>	<u>Contract</u>	<u>Notes</u>	<u>Total</u>
Individually evaluated for impairment	\$18.7	\$60.6	\$79.3	\$14.6	\$60.5	\$75.1
Collectively evaluated for impairment	16.0	-	16.0	17.0	-	17.0
Total	\$34.7	\$60.6	\$95.3	\$31.6	\$60.5	\$92.1

Recorded Investment Aging Analysis	December 31, 2014			September 30, 2014		
	<u>Contracts</u>	<u>Notes</u>	<u>Total</u>	<u>Contracts</u>	<u>Notes</u>	<u>Total</u>
Past Due						
1-29 days	\$9.3	\$1.3	\$10.6	\$6.9	\$1.3	\$8.2
30-59 days	3.8	1.2	5.0	4.2	1.3	5.5
60-89 days	4.4	1.2	5.6	3.6	1.2	4.8
Over 90 days	30.3	71.8	102.1	23.7	66.7	90.4
Total(1)	\$47.8	\$75.5	\$123.3	\$38.4	\$70.5	\$108.9
Amount not past due (2)	252.5	-	252.5	294.6	5.0	299.6
Grand total	\$300.3	\$75.5	\$375.8	\$333.0	\$75.5	\$408.5
(1)Alabama impaired note included in total past due		\$75.0	\$75.0		\$70.0	\$70.0
(2)Alabama impaired note included in amount not past due		-	-		5.0	5.0
Over 90 days, accruing interest	\$0.8	\$-	\$0.8	\$0.6	\$-	\$0.6
Nonaccrual status	24.9	75.5	100.4	21.9	75.5	97.4

Recorded Investment by Credit Quality Indicator (Using Credit Profile by Internally Assigned Risk Grade)	December 31, 2014			September 30, 2014		
	<u>Contracts</u>	<u>Notes</u>	<u>Total</u>	<u>Contracts</u>	<u>Notes</u>	<u>Total</u>
Low	\$117.6	\$-	\$117.6	\$138.9	\$-	\$138.9
Medium	75.8	-	75.8	82.6	-	82.6
High (3)	106.9	75.5	182.4	111.5	75.5	187.0
Total	\$300.3	\$75.5	\$375.8	\$333.0	\$75.5	\$408.5
(3) Alabama impaired note included		\$75.0	\$75.0		\$75.0	\$75.0

Impaired Loans	December 31, 2014			September 30, 2014		
	<u>Contract</u>	<u>Notes</u>	<u>Total</u>	<u>Contract</u>	<u>Notes</u>	<u>Total</u>
Recorded investment	\$31.3	\$75.5	\$106.8	\$28.3	\$75.5	\$103.8
Unpaid principal face	31.6	75.5	107.1	28.7	75.5	104.2
Related allowance	18.7	60.6	79.3	14.6	60.5	75.1
Average recorded investment	29.8	75.5	105.3	17.0	75.3	92.3

Interest income recognized on impaired contracts, none of which was cash basis, totaled \$0.1 million for each of the first quarters ended December 31, 2014 and 2013.

#### 4. CONCENTRATIONS OF CREDIT RISK

##### Net Receivables By Region At December 31, 2014

Nevada	12 %		
Louisiana	7 %	Argentina	11 %
Illinois	5 %	Europe	9 %
California	5 %	Mexico	8 %
Other (less than 4% individually)	29 %	Other (less than 4% individually)	14 %

North America

58 % International

42 %

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## 5. INVENTORIES

	December 31, 2014	September 30, 2014
Raw materials	\$ 50.9	\$ 48.9
Work-in-process	1.2	0.8
Finished goods	19.9	21.7
Total	\$ 72.0	\$ 71.4

## 6. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2014	September 30, 2014
Land	\$ 52.1	\$ 52.1
Buildings	233.4	232.4
Leasehold improvements	14.8	15.2
Machinery, furniture and equipment	283.9	286.8
Gaming operations equipment	667.1	713.0
Total cost	1,251.3	1,299.5
Less accumulated depreciation	(846.1)	(886.8)
Property, plant and equipment, net	\$ 405.2	\$ 412.7

## 7. GOODWILL AND OTHER INTANGIBLES

## GOODWILL

Activity By Segment For the Three Months Ended December 31, 2014	North America	International	Total
Beginning balance	1,275.9	\$ 185.7	\$1,461.6
Foreign currency adjustment	-	(7.7)	(7.7)
Ending balance	\$ 1,275.9	\$ 178.0	\$1,453.9

## OTHER INTANGIBLES

	December 31, 2014			September 30, 2014		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Patents	\$355.3	\$ 337.8	\$17.5	\$355.8	\$ 334.5	\$21.3
Developed technology	131.0	98.3	32.7	131.0	94.7	36.3
Contracts	20.1	19.5	0.6	20.1	19.3	0.8
Reacquired rights	13.4	5.4	8.0	13.4	5.1	8.3
Customer relationships	61.2	53.8	7.4	61.2	52.0	9.2
Trademarks	12.5	7.9	4.6	12.5	7.5	5.0
Total	\$593.5	\$ 522.7	\$70.8	\$594.0	\$ 513.1	\$80.9

## Aggregate Amortization

First Quarter Ended December 31,	Future Annual Estimates					
2014	2013	2015	2016	2017	2018	2019
\$ 10.2	\$ 13.5	\$37.6	\$20.9	\$11.1	\$6.0	\$2.1



## 8. FAIR VALUE MEASUREMENTS

## FINANCIAL ASSETS (LIABILITIES) CARRIED AT FAIR VALUE

	Fair Value	Level 1	Level 2	Level 3
December 31, 2014				
Money market funds	\$ 65.4	\$ 65.4	\$ -	\$ -
Derivative assets	68.7	-	68.7	-
Derivative liabilities	(64.3 )	-	(64.3 )	-
Acquisition contingent earn-out payable	(60.6 )	-	-	(60.6 )
September 30, 2014				
Money market funds	\$ 65.8	\$ 65.8	\$ -	\$ -
Derivative assets	65.2	-	65.2	-
Derivative liabilities	(58.1 )	-	(58.1 )	-
Acquisition contingent earn-out payable	(58.2 )	-	-	(58.2 )

## 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, forward yields for the 10-year treasury sourced from Bloomberg, and net settlement amounts where appropriate. These are presented primarily as components of other assets, other liabilities, notes payable, and AOCI. See Note 9.

Acquisition contingent earn-out payable relates to the estimated FV of consideration due for the business acquisitions of DoubleDown and Strategy9 that is dependent on whether the businesses reach certain earnings targets. A DCF model is used to determine the FV based on the expected payments and probability-weighted earnings projections. Changes in projections and/or probabilities are the most significant assumptions and result in directionally similar changes in FV. Changes in the risk-adjusted discount rate cause a directionally opposite change in FV. Changes in FV are recorded to earnings within contingent acquisition-related costs and the payable is presented as a component of other liabilities, current and noncurrent depending on the expected payment timing.

To derive the estimated FV at December 31, 2014 for DoubleDown earn-out, we applied probability rates of 3% - 97% to various scenarios. The 2014 accretion was primarily related to the time-value of money. The payable balance was current and totaled \$60.0 million at December 31, 2014 and \$57.6 million at September 30, 2014. The payable balance for Strategy9 earn-out totaled \$0.6 million (noncurrent) at December 31, 2014 and September 30, 2014, based on an estimated FV derived using probability rates of 10% - 50% applied to future scenarios, along with a discount rate of 10%.

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

Acquisition Contingent Consideration Payable for the Three Months Ended December 31,	2014	2013
Beginning balance	\$(58.2)	\$(106.4)
Issuances	-	-
Accretion (fair value adjustment)	(2.4 )	(4.5 )
Payments	-	-
Ending balance	\$(60.6)	\$(110.9)

## FINANCIAL ASSETS (LIABILITIES) NOT CARRIED AT FAIR VALUE

	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Unrealized Gain (Loss)
December 31, 2014						
Jackpot investments	\$287.4	\$322.6	\$322.6	\$ -	\$-	\$ 35.2
Contracts & notes receivable	280.5	276.1	-	-	276.1	(4.4 )
Jackpot liabilities	(377.0 )	(374.5 )	-	-	(374.5)	2.5
Debt	(1,745.9)	(1,824.7 )	(1,377.6)	-	(447.1)	(78.8 )
September 30, 2014						
Jackpot investments	\$289.7	\$323.0	\$323.0	\$ -	\$-	\$ 33.3
Contracts & notes receivable	316.4	311.8	-	-	311.8	(4.6 )
Jackpot liabilities	(379.1 )	(369.6 )	-	-	(369.6)	9.5
Debt	(1,820.8)	(1,923.7 )	(1,402.3)	-	(521.4)	(102.9 )

## 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 8.0 %, high 9.5 % - 11.00 %). 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 (2.11%) for the estimated funding rate and the 10-year credit default swap rate (2.34%) for nonperformance risk. The present value (carrying value) of the expected lump sum payments were discounted using the 1-year treasury yield curve rate (.21%) with the 1-year credit default swap rate (.30%) for the current amounts and the 2-year treasury yield curve rate (.66%) with the 2-year credit default swap rate (.48%) for noncurrent amounts. Significant increases (decreases) in any of these inputs in isolation would result in a lower (higher) FV measurement. Generally, changes in the estimated funding rates do not correlate with changes in nonperformance credit risk.

Debt is predominantly 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, if any, under our revolving credit facility are level 3 and FV is determined using DCF of expected payments at the current market rate of 1.396%. Carrying values in the table excluded swap adjustments. See Note 10.

## 9. DERIVATIVE INSTRUMENTS

## FOREIGN CURRENCY HEDGING

The notional amount of foreign currency contracts hedging our exposure related to monetary assets and liabilities denominated in nonfunctional currency totaled \$49.0 million at December 31, 2014 and \$58.7 million at September 30, 2014.

PRESENTATION OF DERIVATIVE AMOUNTS

Except for counterpart netting of interest receivable and payable related to our interest rate swaps, all derivatives are recorded on a gross basis.

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Balance Sheet Location and Fair Value	December 31, 2014		September 30, 2014	
	Assets	Liabilities	Assets	Liabilities
Non-designated Hedges: Foreign Currency Contracts				
Other assets and deferred costs (current)	\$ 3.3	\$ -	\$ 2.1	\$ -
Other accrued liabilities	-	-	-	0.3
Designated Hedges: Interest Rate Swaps				
Other assets and deferred costs (noncurrent)	64.2	-	55.4	-
Long-term debt	-	64.3	-	57.8
Gross Derivatives	67.5	64.3	57.5	58.1
Counter-party Netting: Swaps Interest Receivable and Payable				
Accounts receivable				
Due from counter-party	2.9	-	15.5	-
Due to counter-party	(1.7 )	-	(7.8 )	-
Net Derivatives	\$ 68.7	\$ 64.3	\$ 65.2	\$ 58.1

Income Statement Location and Income (expense)

Periods Ended December 31,	2014	2013
Non-designated Hedges: Foreign Currency Contracts		
Other income (expense)	\$ 1.5	\$ 1.2
Designated Hedges: Interest Rate Swaps		
Effectiveness - Interest expense	7.2	6.8
Ineffectiveness - Other income (expense)	2.3	(1.1)

10. CREDIT FACILITIES AND INDEBTEDNESS

	December 31, 2014	September 30, 2014
Credit facility	\$ 450.0	\$ 525.0
7.5% Bonds (due June 2019)	500.0	500.0
5.5% Bonds (due June 2020)	300.0	300.0
5.35% Bonds (due October 2023)	500.0	500.0
Total principal debt obligations (at face)	1,750.0	1,825.0
Discounts:		
7.5% Bonds	(1.5 )	(1.5 )
5.5% Bonds	(0.8 )	(0.8 )
5.35% Bonds	(1.8 )	(1.9 )
Swap FV adjustments:		
7.5% Bonds	41.3	38.5
5.5% Bonds	23.0	19.3
Total outstanding debt recorded, net	\$ 1,810.2	\$ 1,878.6

IGT was compliant with all covenants and embedded features required no bifurcation at December 31, 2014.

At December 31, 2014, \$450.0 million was outstanding under our \$1.0 billion revolving credit facility, \$531.1 million was available, and \$18.9 million was reserved for letters of credit, performance bonds, and bank guarantees.

During the 2015 first quarter, GTECH reimbursed IGT for \$1.7 million of fees paid related to our 7.5% bondholder amendment, which was recorded as an increase to deferred offering costs and APIC.

The 2014 first quarter included contractual interest expense of \$6.9 million and discount amortization of \$9.8 million related to our 3.25% convertible notes that were redeemed on May 1, 2014.

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## 11. CONTINGENCIES

### LEGAL PROCEEDINGS

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. With respect to litigation and other legal proceedings where the Company has determined that a loss is reasonably possible, the Company is unable to estimate the amount or range of reasonably possible loss in excess of amounts already accrued, due to the inherent difficulty of predicting the outcome of and uncertainties regarding such litigation and legal proceedings. 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.

#### Atlantic Lotteries

On April 26, 2012, representatives of a purported class of persons allegedly harmed by VLT gaming filed an action in the Supreme Court of Newfoundland 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 was to determine whether the plaintiffs have pleaded a cause of action. Hearings on Phase 1 were held on June 6 and 7, 2013. In Phase 1 of the class action certification application, the Court ruled that the claim discloses arguable causes of action. Phase 2 of the certification application will determine whether there are sufficient common issues raised in the claim and whether a class proceeding is the preferable procedure.

#### Shareholder Derivative Action

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. Plaintiff purportedly brought this action on behalf of the Company. The complaint 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 complaint sought an unspecified amount of damages. The defendants filed motions to dismiss and on March 14, 2012, the District Court dismissed the case and the plaintiff appealed. On December 17, 2014, the US Court of Appeals for the Ninth Circuit affirmed the District Court's ruling.

#### Global Draw Limited

On September 17, 2013, Global Draw Limited commenced proceedings in London against IGT-UK Group Limited (a wholly owned subsidiary of IGT) and IGT, captioned 2013 High Court of Justice (Commercial Court) in London, England, Case No. 2013, Folio 1246. Global Draw's claims arise out of a Sale and Purchase Agreement dated April 26, 2011 (SPA) pursuant to which Global Draw purchased from IGT-UK all of the outstanding shares of Barcrest Limited. Global Draw seeks claims against IGT-UK under the terms of indemnities and warranties contained in the SPA and against IGT under the terms of a guarantee given by IGT in respect of the liabilities of IGT-UK under the SPA. On November 7, 2013, IGT-UK filed and served its defense and counterclaim in response to the claim, and IGT has also entered its defense. The claims assert damages of £1.3 million and US \$2.9 million excluding interest, plus other unquantified damages. On June 24, 2014 Global Draw updated the \$2.9 million damage assertion to \$5.2 million. Global Draw filed a summary judgment application pertaining to the interpretation of certain terms of the SPA. On September 10, 2014, the court ruled on the summary judgment application, with IGT having successfully defended against the application except for its obligations to indemnify Global Draw for costs and expenses relating to

proceedings against Global Draw in Italy during the period of September 23, 2011 to September 23, 2013.

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Global Draw asserts that the amount payable in connection with IGT's indemnification obligations regarding these proceedings to be, at the very least, approximately £0.6 million. The court also ordered Global Draw to pay 75% of IGT's costs in defending the application. Discovery was given on December 12, 2014. The trial is currently scheduled for May 7-20, 2015.

#### Shareholder Class Actions Relating to the Pending Transaction with GTECH S.p.A.

Subsequent to the announcement of the Company's entry into a merger agreement with GTECH S.p.A. (see Note 1), various putative shareholder class action complaints have been filed by purported shareholders of the Company. As of November 12, 2014, the Company had received the following complaints, each filed in the Eighth Judicial District Court of the State of Nevada for Clark County: Klein v. International Game Technology, et al., Case No. A-14-704058-B, filed July 18, 2014; Steinberg v. International Game Technology, et al., Case No. A-14-704098-C, filed July 21, 2014; Kanter v. International Game Technology, et al., Case No. A-14-704101-C, filed July 21, 2014; Tong v. International Game Technology, et al., Case No. A-14-704140-B, filed July 21, 2014; MacDougall v. International Game Technology, et al., Case No. A-14-704147-C, filed July 22, 2014; Longo v. International Game Technology, et al., Case No. A-14-704277-B, filed July 23, 2014; Kitchen v. International Game Technology, et al., Case No. A-14-704286-C, filed July 23, 2014; Gonzalez, et al. v. International Game Technology, et al., Case No. A-14-704288-C, filed July 23, 2014; Krol v. International Game Technology, et al., Case No. A-14-704330-C, filed July 24, 2014; Irving Firemen's Relief & Retirement Fund v. International Game Technology, et al., Case No. A-14-704334-B, filed July 24, 2014; Neumann v. International Game Technology, et al., Case No. A-14-704393-B, filed July 25, 2014; Taber v. International Game Technology, et al., Case No. A-14-704403-B, filed July 25, 2014; Aberman v. International Game Technology, et al., Case No. A-14-704454-B, filed July 27, 2014; Epstein, et al. v. International Game Technology, et al., Case No. A-14-704509-B, filed July 28, 2014; Lowinger v. International Game Technology, et al., Case No. A-14-704759-B, filed July 30, 2014; Lerman v. International Game Technology, et al., Case No. A-14-704849-B, filed August 1, 2014; Braunstein v. International Game Technology, et al., Case No. A-14-704210-B, filed July 22, 2014; and Weston v. International Game Technology, et al., Case No. A-14-704856-C, filed August 1, 2014.

In addition, the following related complaints were filed in the Eighth Judicial District Court of the State of Nevada for Clark County, but have been voluntarily dismissed: Zak v. International Game Technology, et al., Case No. A-14-704095-C, filed July 21, 2014 and dismissed September 16, 2014; Lerman v. International Game Technology, et al., Case No. A-14-704287-C, filed July 23, 2014 and dismissed July 31, 2014; and Iron Workers District Council of Tennessee Valley & Vicinity Welfare, Pension & Annuity Plans v. International Game Technology, et al., Case No. A-14-704409-C, filed July 25, 2014 and dismissed August 22, 2014.

The complaints purport to be brought on behalf of all similarly situated shareholders of the Company and generally allege that the members of the IGT board of directors breached their fiduciary duties to IGT shareholders by approving the proposed merger transaction for inadequate consideration, entering into a merger agreement containing preclusive deal protection devices and failing to take steps to maximize the value to be paid to IGT shareholders. The complaints also allege claims against IGT and GTECH, and, in some cases, certain of GTECH's subsidiaries, for aiding and abetting these alleged breaches of fiduciary duties.

The complaints seek preliminary and permanent injunctions against the completion of the transaction, or, alternatively, damages in favor of the plaintiffs and the class in the event that the transaction is completed. Certain of the complaints also seek, in the event that the transaction is completed, rescission of the transaction or rescissory damages in favor of the plaintiffs and the class. IGT intends to vigorously defend against the claims asserted in these lawsuits.

On October 2, 2014, the District Court held a hearing and granted motions to consolidate the above cases and appointed interim lead plaintiffs and lead and liaison plaintiffs' counsel. This consolidated action in the Eighth Judicial District Court of the State of Nevada for Clark County is captioned In re International Game Technology



Shareholders' Litigation, Case No. A-14-704058-B. On February 2, 2015, IGT and the other defendants entered into a memorandum of understanding with respect to settlement with the remaining parties in this action, together with all related consolidated cases. Pursuant to the memorandum of understanding, the parties expect to execute a stipulation of settlement, subject to court approval. The settlement terms will provide that the litigation will be dismissed with prejudice against all defendants. Pursuant to the terms of the memorandum of understanding, IGT, GTECH and HoldCo have made certain supplemental disclosures in the IGT Proxy Statement/Prospectus dated January 2, 2015. In addition, subject to the terms and conditions of the memorandum of understanding, GTECH waived any right to any portion of certain termination fees under the Merger Agreement in excess of \$98.0 million.

#### Bally Gaming, Inc.

On December 19, 2014, IGT was sued by Bally Gaming, Inc. in the District Court of Clark County, Nevada, captioned Bally Gaming, Inc. v. International Game Technology and IGT, Case No. A-14-711384-B. The suit relates to a contract between the parties under which IGT granted a license to Bally for TITO technology. Bally alleges that the contract grants a license to entities that became related to Bally after the contract was executed. Bally seeks a declaratory judgment on what entities have been granted a license under the contract, and further alleges that IGT has breached the contract, breached the implied covenant of good faith and fair dealing. Bally is seeking, among other things, unspecified monetary relief, specific performance or a mandatory injunction regarding IGT's obligations under the contract, declaratory relief, pre- and post-judgment interest, and attorneys' fees and costs. On February 3, 2015, IGT filed a motion to dismiss the lawsuit. IGT intends to vigorously defend against the claims asserted in the lawsuit.

#### Oregon State Lottery

On December 31, 2014 a representative of a purported class of persons alleged to have been financially harmed by relying on the auto hold feature of various manufacturers' video poker machines played in Oregon, filed suit against the Oregon State Lottery and various manufacturers, including IGT. The matter was filed in the Circuit Court for the State of Oregon, County of Multnomah and is captioned Justin Curzi, On Behalf of Himself and All Other Similarly Situated Individuals v. Oregon State Lottery, IGT (Inc.), GTECH USA, LLC, and WMS Gaming Inc.(case number 14CV20598). The suit alleges the auto hold feature of video poker games is perceived by players as providing the best possible playing strategy that will maximize the odds of the player winning, when such auto hold feature does not maximize the players' odds of winning. The suit seeks in excess of \$134.0 million in monetary damages. IGT has signed a Joint Representation Agreement with another manufacturer, GTECH. IGT intends to vigorously defend against the claims asserted in the lawsuit.

#### OTHER 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 \$10.5 million at December 31, 2014. 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 \$8.3 million at December 31, 2014.

##### 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 retain a portion of our workers' compensation, automobile liability, directors' and officers' liability, electronic errors and omissions liability, and property and crime risks in the form of deductibles or self-insured retentions and we are self-insured for various levels of 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.

Three Months ended December 31,	2014	2013
Beginning balance	\$3.3	\$4.4
Reduction for payments made	(1.1)	(1.4)
Accrual for new warranties issued	1.7	2.6
Adjustments for pre-existing warranties	(0.6)	(1.5)
Ending balance	\$3.3	\$4.1

## 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 three months ended December 31, 2014 increased to 32.3% from -4.9% for the same prior year period. The current year effective tax rate was positively impacted by the retroactive reinstatement of the R&D tax credit. Our 2014 effective tax rate was favorably impacted by the settlement of US federal income tax audits for 1999 and 2006 through 2009.

At December 31, 2014, our gross UTBs totaled \$51.1 million, excluding related accrued interest and penalties of \$10.4 million. At December 31, 2014, \$39.9 million of our UTBs, including related accrued interest, penalties, and indirect effects in other jurisdictions, would affect our effective tax rate if recognized. During the three months ended December 31, 2014, our UTBs increased \$3.5 million and related interest and penalties decreased \$0.2 million. We do not believe our total UTBs will change significantly during the next twelve months.

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

## SIP Share-based Compensation As Of And For The Three Months Ended December 31, 2014

OPTIONS	Shares	Weighted Average		
		Exercise Price Per Share	Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at beginning of fiscal year	7.4	\$ 18.41		
Granted	-	-		
Exercised	(0.1 )	14.37		
Forfeited	-	16.69		
Expired	(0.2 )	26.11		
Outstanding at end of period	7.1	\$ 18.34	3.9	\$ 10.9
Vested and expected to vest	7.1	\$ 18.34	3.9	\$ 10.9
Exercisable	7.1	\$ 18.35	3.9	\$ 10.8

RESTRICTED SHARE UNITS	Shares	Weighted Average		
		Grant Date Fair Value Per Share	Remaining Vesting Period (in years)	Aggregate Intrinsic Value
Outstanding at beginning of fiscal year	6.3	\$ 15.39		
Granted	-	16.13		
Vested	(1.8 )	15.28		
Forfeited	(0.2 )	15.57		
Outstanding at end of period	4.3	\$ 15.43	1.6	\$ 74.7
Expected to vest	3.1	\$ 15.27	1.6	\$ 54.3

## OTHER INFORMATION

Shares available for future grant (see Note 1 about GTECH merger limitations)	21.2
Unrecognized costs for outstanding awards	\$51.6
Weighted average future recognition period (in years)	1.5

## 14. EARNINGS PER SHARE

First Quarters Ended December 31,	2014	2013
Net income available to common shares	\$35.0	\$79.2
Basic weighted average shares outstanding	247.6	252.6
Dilutive effect of non-participating share-based awards	2.3	2.7
Diluted weighted average common shares outstanding	249.9	255.3
Basic EPS	\$0.14	\$0.31
Diluted EPS	\$0.14	\$0.31
Weighted average shares excluded from diluted EPS because the effect would be anti-dilutive:		
Share-based awards	4.1	5.1

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3.25 % Convertible Notes (redeemed May 1, 2014)	-	42.6
Hedges (expired May 1, 2014)	-	(42.6 )
Warrants (expired November 21, 2014)	-	42.6

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## Share Repurchases

First Quarters Ended December 31,	2014	2013
Total shares repurchased <sup>(1)</sup>	0.5	8.8
Average price per share	\$16.84	\$17.28
Aggregate payments	\$8.1	\$211.0
Remaining authorization (see Note 1 about GTECH merger limitations)	\$209.7	

<sup>(1)</sup>Including net shares tendered by employees at vesting for tax withholding obligations

## 15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Quarters Ended December 31,	Unrealized Gain (Loss)			Unrealized Gain (Loss)		
	Currency Translation Adjustment	Treasury Stocks	TOTAL	Currency Translation Adjustment	Treasury Stocks	TOTAL
	2014			2013		
Beginning balance	\$ (22.5 )	\$ 7.3	\$ (15.2 )	\$ 0.2	\$ 8.0	\$ 8.2
Activity before reclassifications:						
Before tax	(15.3 )	-	(15.3 )	(2.3 )	-	(2.3 )
Income tax effect	-	-	-	-	-	-
Net of tax	(15.3 )	-	(15.3 )	(2.3 )	-	(2.3 )
Reclassifications to earnings: (located within interest expense on the income statement)						
Before tax	-	(0.3 )	(0.3 )	-	(0.3 )	(0.3 )
Income tax effect	-	0.1	0.1	-	0.1	0.1
Net of tax	-	(0.2 )	(0.2 )	-	(0.2 )	(0.2 )
Net other comprehensive income	(15.3 )	(0.2 )	(15.5 )	(2.3 )	(0.2 )	(2.5 )
Ending balance	\$ (37.8 )	\$ 7.1	\$ (30.7 )	\$ (2.1 )	\$ 7.8	\$ 5.7

## 16. BUSINESS SEGMENTS

We view our business in two operating segments, North America and International, each incorporating all revenue categories—Gaming Operations, Product Sales, and Interactive.

NORTH AMERICA includes operations associated with our land-based and online real-money customers located in the US and Canada, as well as all customers serviced by our US-based social gaming operations.

INTERNATIONAL consists of our land-based and online real-money customers located in all other jurisdictions worldwide.

Certain income and expenses related to company-wide initiatives, primarily comprised of general and administrative costs and other income (expense), are managed at the corporate level and not allocated to an operating segment. Our business segments are designed to allocate resources within a framework of management responsibility. Operating costs included in one segment may benefit other segments. Ongoing realignment of business development and administrative functions may result in ongoing changes to allocations of operating cost amongst our operating segments.



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 (see Note 17) are reflected within the segment where actions occurred.

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## Business Segments Financial Information

First Quarters Ended December 31,	2014	2013
<b>NORTH AMERICA</b>		
Revenues	\$363.5	\$427.4
Gaming operations	188.0	191.6
Product sales	94.0	170.0
Interactive	81.5	65.8
Gross profit	212.1	244.6
Gaming operations	115.8	113.7
Product sales	46.7	90.0
Interactive	49.6	40.9
Operating income	84.0	105.9
<b>INTERNATIONAL</b>		
Revenues	\$87.1	\$113.8
Gaming operations	23.1	31.4
Product sales	54.0	73.6
Interactive	10.0	8.8
Gross profit	46.3	65.2
Gaming operations	15.5	22.5
Product sales	24.3	36.9
Interactive	6.5	5.8
Operating income	12.5	24.9
<b>CORPORATE (unallocated)</b>		
Operating expenses	\$(33.0)	\$(27.1)
<b>CONSOLIDATED</b>		
Revenues	\$450.6	\$541.2
Gaming operations	211.1	223.0
Product sales	148.0	243.6
Interactive	91.5	74.6
Gross profit	258.4	309.8
Gaming operations	131.3	136.2
Product sales	71.0	126.9
Interactive	56.1	46.7
Operating income	63.5	103.7

## 17. IMPAIRMENT, RESTRUCTURING, AND MERGER-RELATED COSTS

At December 31, 2014, impairment, restructuring, and merger-related costs totaled \$12.9 million, comprised of GTECH merger-related costs of \$13.9 million, partially offset by \$1.0 million of impairment recovery related to the sale of our Alabama Country Crossing note. GTECH merger-related costs include professional fees for legal and financial consulting and retention bonuses due to all employees who remain employed through the closing date of the merger. See Note 1.

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, 2014, as well as the accompanying Consolidated Interim Financial Statements and Notes included in Item 1 of this Form 10-Q. Information posted on our website is not incorporated into this Form 10-Q.

Our MDA is organized into the following sections:

FORWARD LOOKING STATEMENTS

OVERVIEW

CONSOLIDATED COMPARATIVE ANALYSIS

BUSINESS SEGMENT RESULTS - North America

BUSINESS SEGMENT RESULTS - International

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](http://www.IGT.com)

references to years relate to our fiscal years ending September 30

current refers to our fiscal first quarter ended December 31, 2014

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 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 the translation of foreign functional currencies into US dollars and foreign currency transactions remeasurement. The impact of foreign currency exchange rate fluctuations represents the difference between current rates and prior period rates applied to current period activity.

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:

- statements as to the expected timing, completion and effects of the proposed merger transaction with GTECH
- our ability to successfully introduce new products and their impact on replacement demand
- the timing, features, benefits, and continued or future success of new product introductions and ongoing product, marketing, and strategic initiatives
- our future financial and operational performance
- our strategic and operational plans, including our ability to manage and leverage cost reduction initiatives
- 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
- future 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 anticipated benefits of completed acquisitions and 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
- future product sales or machine placements
- legislative, legal or regulatory developments and related market opportunities
- available capital resources to fund future operating requirements, capital expenditures, payment obligations, acquisitions, dividends, and share repurchases
- losses from off-balance sheet arrangements
- financial returns to shareholders related to management of our costs
- the impact of recently adopted accounting pronouncements
- the outcome and expense of litigation

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition, results of operations and business, as well as any forward looking statements, are subject to change and to inherent known and unknown risks, uncertainties and other factors. These factors include, but are not limited to, risks and uncertainties detailed in our periodic public filings with the SEC, including those discussed under the sections entitled "Risk Factors" in this report, and our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, and those contained or incorporated by reference into such documents and in our subsequent filings with the SEC. For a discussion of additional risks and uncertainties relating to the proposed merger transaction with GTECH, see "Risk Factors Relating to the Merger" in our Proxy Statement/Prospectus dated January 2, 2015. 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-style gaming equipment, systems technology, and game content across multiple platforms—land-based, online real-money and online social. We are a leading supplier of gaming entertainment products worldwide and provide a diverse offering of quality products and services at competitive prices, designed to enhance the gaming player experience.

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

We measure segment profit on the basis of operating income. Certain income and expenses are managed at the corporate level and not allocated to an operating segment. Other segment and financial information is contained in our BUSINESS SEGMENT RESULTS below and Note 16.

## BUSINESS TRENDS

Lower gross slot gaming revenue in many US regional markets during the last twelve months has adversely impacted our financial results. These declines continue to inhibit casino operators' willingness to purchase gaming machines. An increased number of gaming machine competitors in the market place, combined with limited casino operator capital, has driven weaker demand for our gaming machines and negatively impacted our results.

Our international operations have also been impacted by worsening regulatory compliance delays and import restrictions, which continue to impede our ability to satisfy market demand for products in certain foreign jurisdictions. Notwithstanding these current market conditions, we continue to believe that long-term growth opportunities exist internationally, particularly in Asian markets.

We expect that our interactive business, particularly social gaming, will continue to provide growth opportunities. The dynamic growth of social networking and entertainment consumption on mobile devices, such as smart phones and tablets, continues to fuel growth in online social gaming. We believe that online gaming appeals to a broader consumer demographic than land-based gaming.

## STRATEGIC OBJECTIVES

We continue to partner with our customers to build stronger relationships and deliver innovative gaming products and services. Our fiscal 2015 operating objectives below are designed to improve our business with adjustments as new opportunities arise and the industry evolves.

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

## PROPOSED MERGER

On July 15, 2014, we entered into a definitive merger agreement with GTECH S.p.A. for the acquisition of IGT by GTECH for \$6.4 billion, comprised of \$4.7 billion in cash and stock, along with the assumption of \$1.7 billion in net

debt. Under the terms of the merger agreement, as amended on September 23, 2014, IGT and GTECH will combine under a newly formed holding company (HoldCo) domiciled in the UK that will apply for listing solely on the NYSE.

At the closing of the transaction, IGT shares will cease trading on the NYSE and GTECH shares will cease trading on the Borsa Italiana (MSE). IGT will survive as a wholly owned subsidiary of HoldCo, currently named Georgia Worldwide PLC, which will be renamed to a name to be identified by GTECH. HoldCo will maintain corporate headquarters in the UK and operating headquarters in Las Vegas, NV, Providence, RI and Rome, Italy.

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At the effective time of the merger, each share of IGT common stock will be converted into the right to receive a combination of \$13.69 in cash, plus a number of ordinary shares of HoldCo equal to \$4.56 divided by the dollar value of a GTECH share prior to the transaction closing, subject to the calculation adjustments and limitations set forth in the merger agreement, as amended.

The merger agreement contains certain customary covenants regarding the operation of IGT's business during the period prior to the transaction closing, including, among others, limitations on IGT's ability to: (i) issue or grant shares of capital stock or other equity interests in IGT; (ii) acquire shares of capital stock or other equity interests in IGT; and (iii) incur new indebtedness or issue debt securities, in each case subject to certain exceptions.

Consummation of the merger is subject to certain closing conditions, including, without limitation: (i) IGT and GTECH shareholder approvals; (ii) expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and certain other antitrust approvals; (iii) certain gaming regulatory approvals; (iv) effectiveness of the HoldCo F-4; and (v) NYSE listing approval for the HoldCo shares. As of February 6, 2015, (i) GTECH shareholder approval has been obtained and the IGT special meeting of shareholders to approve the transaction is scheduled for February 10, 2015, (ii) early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, has been obtained, (iii) 15 out of 22 regulatory approvals have been granted, and (iv) the HoldCo F-4 has been declared effective. Consummation of the merger is currently expected during the second quarter of calendar 2015.

The merger agreement also contains certain termination rights for IGT and GTECH, such that under certain circumstances, IGT may be required to pay a termination fee of up to \$135.3 million or reimburse certain regulatory expenses incurred by GTECH, and GTECH may be required to pay a termination fee of up to \$270.6 million.

For additional information regarding the proposed merger transaction, including details about the terms and conditions of the merger agreement and related matters, refer to the IGT Proxy Statement/Prospectus dated January 2, 2015.

### SUMMARY RESULTS

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues	\$450.6	\$541.2	\$ (90.6)	-17 %
Operating income	63.5	103.7	(40.2)	-39 %
Net Income	35.0	79.2	(44.2)	-56 %
EPS	\$0.14	\$0.31	\$ (0.17)	-55 %

Quarters ended December 31, 2014 and 2013 compared

Revenue decline for our first quarter ended December 31, 2014 was due to a decrease of \$63.9 million or 15% in our North America operating segment and \$26.7 million or 23% in our International operating segment. Product sales decreased \$95.6 million or 39% due to lower machine unit volume and gaming operations decreased \$11.9 million or 5% primarily due to installed base decline. These decreases were partially offset by an increase of \$16.9 million or 23% in interactive revenue due to growing contributions from social gaming. Changes in foreign currency rates negatively impacted revenues by approximately \$4.9 million.

Operating income, net income and EPS also decreased due to revenue decline. Additionally, the current quarter net income and EPS reflected a more normalized effective income tax rate of 32.3% compared to the prior year quarter rate of -4.9% that resulted from a reduction of \$29.6 million related to audit closures.

Comparability was also impacted by an extra week in the 2015 first quarter, which included 14 weeks compared to 13 weeks in the prior year quarter. We estimate the extra week contributed approximately \$21.6 million to revenues and \$1.8 million to operating income during the 2015 first quarter.





## CONSOLIDATED COMPARATIVE ANALYSIS

## GAMING OPERATIONS

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues	\$211.1	\$223.0	\$(11.9)	-5 %
Gross margin	62 %	61 %	1	pp
Installed base units - '000	45.4	54.3	(8.9 )	-16%
MegaJackpots® (premium brand)	20.4	24.9	(4.5 )	-18%
Lease (CDS, Racino, other)	25.0	29.4	(4.4 )	-15%
Yield - \$0.00	\$46.36	\$44.99	\$1.37	3 %

Quarters ended December 31, 2014 and 2013 compared

Lower gaming operations revenue was primarily due to installed base decline, partially offset by improved yield. Gross margin improved slightly due to improved yield. The improvement in yield was driven by increased play levels, largely attributable to the inclusion of the New Year's holiday in the current quarter.

## PRODUCT SALES

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues	\$ 148.0	\$ 243.6	\$ (95.6 )	-39 %
Machines	80.1	167.0	(86.9 )	-52 %
Non-machine <sup>(1)</sup>	67.9	76.6	(8.7 )	-11 %
Gross margin	48 %	52 %	(4 )	pp
Machine units recognized <sup>(2)</sup> - '000	5.8	12.8	(7.0 )	-55 %
Machine ASP - '000	\$ 13.9	\$ 13.2	\$ 0.7	5 %
Machine units shipped <sup>(3)</sup> - '000	5.9	13.0	(7.1 )	-55 %
New/expansion	1.2	4.4	(3.2 )	-73 %
Replacement	4.7	8.6	(3.9 )	-45 %

<sup>(1)</sup>systems, licensing and parts/other; <sup>(2)</sup>correlates with revenues recognized; <sup>(3)</sup>includes deferred revenue units

Quarters ended December 31, 2014 and 2013 compared

Product sales revenue decreased primarily due to lower machine demand in both new and replacement units. The decrease was most significant in North America, largely due to 2,800 video poker replacement units in the prior year quarter sold under a multi-property corporate contract. Additionally, the prior year quarter included 2,300 new units in Ohio and California. Lower non-machine revenue was due to a decrease of \$5.6 million in parts and \$3.9 million in IP license fees. The increase in ASP was primarily due to the lower-priced video poker units in the prior year quarter. Gross margin decline was primarily attributable to lower manufacturing productivity associated with reduced volumes.

## INTERACTIVE

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues	\$91.5	\$74.6	\$16.9	23 %
Social gaming	79.4	64.8	14.6	23 %
IGTi	12.1	9.8	2.3	23 %
Gross margin	61 %	63 %	(2 )	pp

DoubleDown average user metrics <sup>(1)</sup>

DAU - '000	1,910	1,716	194	11 %
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MAU - '000	5,212	6,198	(986 )	-16 %
Bookings per DAU - \$0.00	\$0.43	\$0.42	\$0.01	2 %

<sup>(1)</sup>as a single application with multiple games, active users equal unique users

Quarters ended December 31, 2014 and 2013 compared

Interactive revenue increased due to growth in both social gaming and IGTi. Social gaming revenue at our DoubleDown Casino continued to build with increases in both DAU and bookings per DAU, primarily driven by mobile growth, improved content, and enhanced player retention and engagement strategies. Average MAU decreased primarily due to increased efforts to procure higher-quality players. IGTi revenue growth was primarily in mobile applications as well. Mobile comprised 39% of social bookings and 44% of IGTi revenue compared to 28% and 29% respectively in the prior year quarter. Margin decline was primarily due to increased royalties.

## OPERATING EXPENSES

First Quarters Ended December 31,	2014	2013	C h a n g e	
Selling, general and administrative	\$108.5	\$117.8	\$9.3	8 %
Research and development	57.3	60.3	3.0	5 %
Depreciation and amortization	13.7	16.7	3.0	18 %
Subtotal	179.5	194.8	15.3	8 %
Percent of revenue	40 %	36 %		
Contingent acquisition-related costs	2.5	11.3	8.8	78 %
Impairment, restructuring and merger-related	12.9	-	(12.9)	*
Total	\$194.9	\$206.1	\$11.2	5 %

Quarters ended December 31, 2014 and 2013 compared

The decrease in SG&A and R&D was primarily attributable to cost savings initiatives, partially offset by approximately \$11.6 million in additional expenses associated with the extra week of operations. Other items impacting the change in SG&A and R&D included decreases in professional fees of \$7.4 million related to legal and compliance matters and bad debt provisions of \$2.2 million, partially offset by an increase of \$5.1 million in advertising and promotions expenses due to the timing of our major annual gaming show, as well as player marketing in social gaming.

Depreciation and amortization decreased primarily due to lower intangibles amortization. Merger-related costs increased \$13.9 million and were partially offset by lower acquisition-related charges outlined in the table below.

Acquisition-related charges (mostly DoubleDown)	2014	2013	Change	
Earn-out (See Note 8 about valuation factors)	\$2.4	\$4.7	\$2.3	49 %
Retention	0.1	6.6	6.5	98 %
Total contingent costs	2.5	11.3	8.8	78 %
Amortization of acquired intangibles	2.2	3.4	1.2	35 %
Total	\$4.7	\$14.7	\$10.0	68 %

## OTHER INCOME (EXPENSE)

First Quarters Ended December 31,	2014	2013	C h a n g e	
Interest Income	\$ 9.3	\$ 10.1	\$ (0.8)	-8 %
WAP investments <sup>(1)</sup>	3.8	4.1	(0.3)	-7 %
Receivables and investments	5.5	6.0	(0.5)	-8 %
Interest Expense	(21.3)	(36.4)	15.1	41 %
WAP jackpot liabilities <sup>(1)</sup>	(3.8 )	(4.1 )	0.3	7 %
Borrowings	(17.5)	(22.8)	5.3	23 %
Convertible debt equity discount	-	(9.5 )	9.5	100 %
Other, including gain (loss)	0.2	(1.9 )	2.1	*
Total other income (expense), net	\$ (11.8)	\$ (28.2)	\$ 16.4	58 %

(1)WAP interest income includes earnings on cash and investments held for future winner payments, as well as jackpot annuity interest that accretes at approximately the same rate as WAP interest expense.

Quarters ended December 31, 2014 and 2013 compared

The favorable change in total other income (expense) was primarily due to lower interest expense mostly related to the maturity of our 3.25% Convertible Notes in May 2014, plus favorable gains that included \$3.4 million related to FV changes on interest rate swaps.

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## INCOME TAX PROVISION (See Note 12)

First Quarters Ended December 31,	2014	2013	C h a n g e	
Income tax provision (benefit)	\$16.7	\$ (3.7)	\$ (20.4)	-551 %
Effective tax rate	32.3 %	-4.9 %	(37.2)	pp

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

Our estimated annual effective income tax rate for 2015 was favorably impacted by \$1.9 million related to the reinstatement of the R&D tax credit. Our estimated annual effective tax rate for 2014 was favorably impacted by the settlement of US Federal audits, which reduced our income tax provision by \$29.6 million.

## BUSINESS SEGMENT RESULTS—North America (See Note 16)

First Quarters Ended December 31,	2014	2013	C h a n g e	
Total Revenues	\$363.5	\$427.4	\$ (63.9)	-15 %
Gross Margin	58 %	57 %	1	pp
Operating Income	\$84.0	\$105.9	\$ (21.9)	-21 %
Margin	23 %	25 %	(2 )	pp

Quarters ended December 31, 2014 and 2013 compared

North America revenue declined due to decreases of \$76.0 million in product sales and \$3.6 million in gaming operations, partially offset by an increase of \$15.7 million in interactive. Total gross margin improved due to higher margins in gaming operations. Operating income and margin also declined due to lower revenues.

## GAMING OPERATIONS—North America

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues	\$188.0	\$191.6	\$ (3.6)	-2 %
Gross margin	62 %	59 %	3	pp
Installed base units - '000	36.7	41.3	(4.6)	-11 %
MegaJackpots® (premium brand)	18.1	21.5	(3.4)	-16 %
Lease (CDS, racino, other)	18.6	19.8	(1.2)	-6 %
Yield - \$0.00	\$51.35	\$50.91	\$0.44	1 %

Quarters ended December 31, 2014 and 2013 compared

North America gaming operations revenue decreased primarily due to installed base decline, partially offset by improved yield. Gross margin increased primarily due to improved yield. Lower depreciation was nearly offset by higher jackpot expense, which increased primarily due to interest rate movements. Installed base decline was most significant in MegaJackpots®. Yield improved was primarily due to increased play levels and most significant in MegaJackpots® WAP games.

## PRODUCT SALES—North America

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues	\$94.0	\$170.0	\$(76.0)	-45%
Machines	51.7	118.0	(66.3)	-56%
Non-machine	42.3	52.0	(9.7)	-19%
Gross margin	50 %	53 %	(3)	pp
Machine units recognized - '000	3.9	9.6	(5.7)	-59%
Machine ASP - '000	\$13.4	\$12.3	\$1.1	9 %
Machine units shipped - '000	4.2	9.8	(5.6)	-57%
New/expansion	0.7	3.7	(3.0)	-81%
Replacement	3.5	6.1	(2.6)	-43%

Quarters ended December 31, 2014 and 2013 compared

North America product sales revenue declined primarily due to lower demand in both new and replacement machine units. New machines recognized included 2,300 units in Ohio and California, as well as 800 additional Illinois VLT units in the prior year quarter and 1,000 Oregon lottery units in the current quarter. The decrease in replacement units recognized was largely due to 2,800 video poker units in the prior year quarter sold under a multi-property corporate contract. Non-machine revenue decreased in all categories. Gross margin decline was primarily attributable to lower manufacturing productivity associated with reduced volumes. ASP improved due to a greater mix of higher-priced units, as the prior year quarter included 2,800 lower-priced video poker units under a large contract.

## INTERACTIVE—North America

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues	\$81.5	\$65.8	\$15.7	24 %
Social gaming	79.4	64.8	14.6	23 %
IGTi	2.1	1.0	1.1	110%
Gross margin	61 %	62 %	(1)	pp

DoubleDown average user metrics

DAU - '000	1,910	1,716	194	11 %
MAU - '000	5,212	6,198	(986)	-16 %
Bookings per DAU - \$0.00	\$0.43	\$0.42	\$0.01	2 %

Quarters ended December 31, 2014 and 2013 compared

North America interactive revenue increased due to continued growth in social gaming. Our DoubleDown Casino social gaming revenue continued to build with increases in both DAU and bookings per DAU. This growth was driven by mobile growth, improved content, and enhanced player retention and engagement strategies. Average MAU decreased primarily due to increased efforts to procure higher-quality players. IGTi revenue grew due to New Jersey opening up online real-money, as well as continued growth in Canada. Gross margin decline was due to increased royalty costs.

## BUSINESS SEGMENT RESULTS—International (See Note 16)

First Quarters Ended December 31,	2014	2013	C h a n g e	
Total Revenues	\$87.1	\$113.8	\$(26.7)	-23%
Gross Margin	53 %	57 %	(4)	pp
Operating Income	\$12.5	\$24.9	\$(12.4)	-50%
Margin	14 %	22 %	(8)	pp

Quarters ended December 31, 2014 and 2013 compared

International revenue declined due to decreases of \$19.6 million in product sales and \$8.3 million in gaming operations, partially offset by an increase of \$1.2 million in interactive. Changes in foreign currency rates negatively impacted revenues by approximately \$4.3 million. Gross margin decline was due to decreases in all revenue categories. Operating income and margin also declined due to lower revenues.

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## GAMING OPERATIONS—International

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues	\$23.1	\$31.4	\$ (8.3 )	-26 %
Gross margin	67 %	72 %	(5 )	pp
Installed base units - '000	8.7	13.0	(4.3 )	-33 %
MegaJackpots® (premium brand)	2.3	3.4	(1.1 )	-32 %
Lease (CDS, racino, other)	6.4	9.6	(3.2 )	-33 %
Yield - \$0.00	\$25.93	\$26.32	\$ (0.39)	-1 %

Quarters ended December 31, 2014 and 2013 compared

International gaming operations revenue decreased primarily due to installed base decline, as well as lower yield in MegaJackpots®. Gross margin declined primarily due to lower yield and higher depreciation expense. Installed base decline was driven largely by prior year lease to for-sale unit conversions in Mexico. Yield declined due to lower play levels in MegaJackpots® and unfavorable changes in foreign exchange rates.

## PRODUCT SALES—International

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues	\$54.0	\$73.6	\$ (19.6)	-27 %
Machines	28.4	49.0	(20.6)	-42 %
Non-machine	25.6	24.6	1.0	4 %
Gross margin	45 %	50 %	(5 )	pp
Machine units recognized - '000	1.9	3.2	(1.3 )	-41 %
Machine ASP - '000	\$15.1	\$15.3	\$ (0.2 )	-1 %
Machine units shipped - '000	1.7	3.2	(1.5 )	-47 %
New/expansion	0.5	0.7	(0.2 )	-29 %
Replacement	1.2	2.5	(1.3 )	-52 %

Quarters ended December 31, 2014 and 2013 compared

International product sales revenue decreased primarily due to weak demand, most significant in Australia as a result of increasing competition and new restrictive regulation. Non-machine revenue improved with an increase in systems, partially offset by a decrease in parts sales. Gross margin declined primarily due to lower manufacturing productivity associated with reduced volumes. ASP decreased primarily due to unfavorable changes in foreign exchange rates.

## INTERACTIVE—International

First Quarters Ended December 31,	2014	2013	C h a n g e	
Revenues - IGTi	\$10.0	\$8.8	\$ 1.2	14 %
Gross margin	65 %	66 %	(1 )	pp

Quarters ended December 31, 2014 and 2013 compared

IGTi revenue improved due to growth in mobile applications and gross margin declined due to higher royalty costs.



## LIQUIDITY AND CAPITAL RESOURCES

## SOURCES OF LIQUIDITY

At December 31, 2014, 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 (see Note 1 about GTECH merger limitations). 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

	December 31, 2014	September 30, 2014	Increase (Decrease)	
Cash and equivalents	\$ 201.6	\$ 255.1	\$ (53.5)	)
Accounts receivable, net	280.5	329.3	(48.8)	)
Inventories	72.0	71.4	0.6	)
Working Capital	657.5	676.3	(18.8)	)
Trailing-twelve month statistics:				
Days sales outstanding (excluding contracts and notes)	52	58	(6)	)
Inventory turns	4.8	5.4	(0.6)	)

Cash and equivalents decreased during the three months ended December 31, 2014 primarily due to \$75.0 million in net debt payments, \$54.6 million of dividends paid, and \$24.6 million for capital expenditures, offset by cash generated from operations of \$102.9 million. Restricted cash and investments and jackpot annuity investments are used for funding jackpot winner payments and online player deposits.

Foreign subsidiary operations held 64% of our cash and equivalents at December 31, 2014 and 43% at September 30, 2014.

Working capital decreased primarily due to lower receivables. Inventory turns decreased due to lower sales volume. Days sales outstanding decreased due to lower revenues and accounts receivable.

## Cash Flows Summary

Three Months Ended December 31,	2014	2013	Favorable (Unfavorable)
Operations	\$102.9	\$76.1	\$ 26.8
Investing	(19.3 )	(77.3 )	58.0
Financing	(133.9)	(229.1)	95.2
Effects of exchange rates	(3.2 )	(2.4 )	(0.8 )
Net change in cash and equivalents	\$(53.5 )	\$(232.7)	\$ 179.2

Operating cash flows increased primarily due to less cash used of \$96.9 million for changes in operating assets and liabilities related to variations in business volume and payment timing, partially offset by a reduction of \$70.1 million in cash earnings (net income plus non-cash adjustments). The most significant net changes in operating assets and liabilities was an increase of \$86.6 million in cash provided by receivables, primarily due to lower revenues.

Reduced cash used for investing was primarily due to \$70.6 million less used for purchases of investment securities, offset by less net cash provided of \$12.6 million from loan payments, restricted cash, jackpot annuity investments, and

assets sold.

Decreased cash used for financing was primarily due to decreases of \$202.9 million used for share repurchases, partially offset by increased cash used of \$74.5 million for net debt payments and \$28.7 million for two quarterly dividends paid. See Note 14 for more information about share repurchases.

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## CREDIT FACILITIES and INDEBTEDNESS (See Note 10)

At December 31, 2014, \$450.0 million was outstanding on our \$1.0 billion revolving credit facility, \$531.1 million was available, and \$18.9 million was reserved for letters of credit, performance bonds, and bank guarantees. We were in compliance with all debt covenants at December 31, 2014, with an interest coverage ratio of 8.3:1 and a net funded debt leverage ratio of 2.9:1.

The credit 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 December 31, 2014, the credit facility carried an interest rate of LIBOR plus 100 bps and a facility fee of 17.5 bps. In anticipation of the GTECH merger, Standard and Poor's downgraded IGT's bond credit rating from BBB- to BB+ on January 30, 2015.

Our credit facility carries no limitations on share repurchases or dividend payments (see Note 1 about limitations related to the GTECH merger) 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 certain 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

	December 31, 2014	September 30, 2014	Increase (Decrease)
Assets	\$ 3,808.6	\$ 3,989.5	\$ (180.9 )
Liabilities	2,615.3	2,791.9	(176.6 )
Total Equity	1,193.3	1,197.6	(4.3 )

## Changes During The Three Months Ended December 31, 2014

Total assets decreased primarily related to reductions in receivables of \$84.7 million due to lower revenues, cash and investments of \$46.8 million mostly due to debt and dividend payments, taxes deferred and receivable of \$19.7 million, and net other intangible assets of \$10.1 million mostly due to amortization.

Total liabilities decreased primarily related to an aggregate reduction of \$109.6 million in other accrued liabilities, accrued dividends, accrued employee benefits, and accounts payable due to payment timing and \$68.4 million in long-term debt.

Total equity decreased primarily due to unrealized loss of \$15.3 million related to currency translation adjustment, offset by earnings after dividends of \$7.5 million, \$2.0 million related to employee stock plans and \$1.7 million of GTECH reimbursement for bondholder amendment fees.

## CONTRACTUAL OBLIGATIONS

There has been no material change in contractual obligations or arrangements with off-balance sheet risk (see Note 11) since the disclosures in Item 7 of our Annual Report on Form 10-K for the year ended September 30, 2014.

## RECENTLY ISSUED ACCOUNTING STANDARDS OR UPDATES (See Note 1)

There are no recently issued accounting standards or updates expected to have a material impact on our financial statements.

## CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in conformity with US GAAP, which requires that we make estimates incorporating judgments and assumptions believed to be 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. Estimates affect amounts recorded in the financial statements and actual results may differ from initial estimates.

The following accounting estimates are considered the most sensitive to changes from external factors, requiring subjective or complex judgments about matters that are inherently uncertain or variable, and are considered the most critical to fully understanding and evaluating our reported financial results:

Revenue Recognition  
Intangible Assets and Acquisition Contingent Earn-out Payable  
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, 2014.

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

There has been no material change in our market risk profile since the presentation in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2014.

#### 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 or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms. 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 (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). 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 (as defined in 13a-15(f) under the Exchange Act).

## 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.

## ADDITIONAL LEGAL MATTER

IGT has received a request from the SEC to supply certain information relating to its internal pricing practices for internally refurbished spare parts from electronic gaming machines. We are cooperating fully with the SEC and do not believe that the SEC information request will have a material adverse effect on IGT's financial condition or results of operations.

## Item 1A. Risk Factors

We are subject to risks and uncertainties that could cause our actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. Factors that could cause actual results to differ from expectations are described under Part I, Item 1A of our Annual Report on Form 10-K for the year ended September 30, 2014.

## 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 1 about share repurchase restrictions related to the proposed GTECH merger. Total shares purchased during the 2015 first quarter included 479,100 net shares tendered by employees at vesting for tax withholding obligations.

	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
2015 First Quarter (in millions, except price per share)				
September 28 - November 1, 2014	-	\$ -	-	\$ 209.7
November 2 - November 29, 2014	0.1	16.60	0.1	209.7
November 30, 2014 - January 3, 2015	0.4	16.87	0.4	209.7

## Item 3. Defaults Upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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Item 6. Exhibits

- Amendment No. 1, dated as of October 20, 2014, between International Game Technology and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of June 15, 2009, as supplemented by the First Supplemental Indenture dated as of June 15, 2009 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 22, 2014)
- 4.1
- 10.1\* IGT 2002 Stock Incentive Plan – Form: Letter Amendment to Performance Restricted Stock Unit Award Agreement Fiscal 2013 and Performance Restricted Stock Unit Award Agreement Fiscal 2014
- 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

\* Management contract or compensatory plan or arrangement

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: February 6, 2015

INTERNATIONAL GAME TECHNOLOGY

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