

INTERNATIONAL GAME TECHNOLOGY

Form 10-Q

August 11, 2004

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**United States
Securities and Exchange Commission**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2004

OR

o 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
(State of Incorporation)

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

9295 Prototype Drive
Reno, Nevada 89521
(Address of principal executive offices)

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

www.IGT.com
(Registrant's website)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes x No o

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

Class	Outstanding at August 11, 2004
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Common Stock 344,634,543
par value \$.00015625 per share

International Game Technology

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Unaudited Condensed Consolidated Financial Statements****INCOME STATEMENTS**

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
(In thousands, except per share amounts)				
Revenues				
Product sales	\$315,582	\$300,068	\$1,008,419	\$ 795,847
Gaming operations	303,305	261,853	854,613	784,795
Total revenues	618,887	561,921	1,863,032	1,580,642
Costs and operating expenses				
Cost of product sales	143,787	156,556	478,603	414,506
Cost of gaming operations	136,843	126,322	385,997	369,818
Selling, general and administrative	72,938	67,968	220,157	200,007
Depreciation and amortization	16,633	11,297	47,158	35,483
Research and development	32,843	23,678	95,736	67,609
Provision for bad debts	4,761	2,537	16,044	9,550
Total costs and operating expenses	407,805	388,358	1,243,695	1,096,973
Operating income	211,082	173,563	619,337	483,669
Other income (expense)				
Interest income	15,656	14,143	43,831	38,784
Interest expense	(22,649)	(31,166)	(76,824)	(87,100)
Loss on the sale of assets	(150)	(61)	(675)	(124)
Other	(880)	939	(10,639)	1,108
Other expense, net	(8,023)	(16,145)	(44,307)	(47,332)
Income from continuing operations before tax	203,059	157,418	575,030	436,337

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Provision for income taxes	<u>61,957</u>	<u>57,537</u>	<u>199,586</u>	<u>162,689</u>
Income from continuing operations	141,102	99,881	375,444	273,648
Discontinued operations, net of tax of \$2,246, \$35,312 and \$5,299	<u> </u>	<u>3,804</u>	<u>58,924</u>	<u>8,738</u>
Net income	<u>\$141,102</u>	<u>\$103,685</u>	<u>\$ 434,368</u>	<u>\$ 282,386</u>
Basic earnings per share				
Continuing operations	<u>\$ 0.40</u>	<u>\$ 0.29</u>	<u>\$ 1.08</u>	<u>\$ 0.80</u>
Discontinued operations	<u> </u>	<u>0.01</u>	<u>0.17</u>	<u>0.02</u>
Net income	<u>\$ 0.40</u>	<u>\$ 0.30</u>	<u>\$ 1.25</u>	<u>\$ 0.82</u>
Diluted earnings per share				
Continuing operations	<u>\$ 0.38</u>	<u>\$ 0.29</u>	<u>\$ 1.03</u>	<u>\$ 0.78</u>
Discontinued operations	<u> </u>	<u>0.01</u>	<u>0.16</u>	<u>0.02</u>
Net income	<u>\$ 0.38</u>	<u>\$ 0.30</u>	<u>\$ 1.19</u>	<u>\$ 0.80</u>
Weighted average shares outstanding				
Basic	348,426	342,367	346,921	344,009
Diluted	378,482	349,755	369,919	350,978

See accompanying notes.

Table of Contents**BALANCE SHEETS**

	June 30, 2004	September 30, 2003
(In thousands, except shares and par value)		
Assets		
Current assets		
Cash and equivalents (restricted \$136,296 and \$85,479)	\$ 1,187,568	\$ 1,311,558
Investment securities, at market value	4,006	4,013
Accounts receivable, net of allowances for doubtful accounts of \$25,742 and \$20,945	372,914	351,062
Current maturities of long-term notes and contracts receivable, net	54,134	83,752
Inventories	165,440	147,066
Investments to fund liabilities to jackpot winners	50,156	41,502
Deferred income taxes	60,894	29,743
Prepaid expenses and other	73,232	35,044
Assets of discontinued operations held for sale		69,967
Other assets held for sale		4,521
	<hr/>	<hr/>
Total current assets	1,968,344	2,078,228
Long-term notes and contracts receivable, net	93,147	133,039
Property, plant and equipment, net	291,559	261,620
Investments to fund liabilities to jackpot winners	473,478	333,454
Deferred income taxes	25,596	94,918
Intangible assets, net	261,109	218,184
Goodwill	1,059,663	980,427
Other assets	131,307	85,361
	<hr/>	<hr/>
	\$ 4,304,203	\$ 4,185,231
	<hr/>	<hr/>
Liabilities and Stockholders Equity		
Current liabilities		
Current maturities of long-term notes payable	\$ 366,259	\$ 406,147
Accounts payable	71,970	65,259
Jackpot liabilities	191,841	164,089
Accrued employee benefit plan liabilities	51,105	57,771
Dividends payable	34,899	34,554
Accrued interest	8,176	29,988
Accrued income taxes	8,272	31,928
Other accrued liabilities	146,373	137,769
Liabilities of discontinued operations		17,576
	<hr/>	<hr/>
Total current liabilities	878,895	945,081
Long-term notes payable, net of current maturities	780,690	1,146,759

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Long-term jackpot liabilities	515,633	377,043
Other liabilities	44,698	28,870
	<hr/>	<hr/>
	2,219,916	2,497,753
	<hr/>	<hr/>
Commitments and Contingencies		
Stockholders' Equity		
Common stock: \$.00015625 par value; 1,280,000,000 shares authorized; 707,469,365 and 703,348,533 shares issued	111	110
Additional paid-in capital	1,623,938	1,537,111
Treasury stock: 358,478,847 and 357,806,048 shares, at cost	(1,716,120)	(1,691,959)
Deferred compensation	(13,690)	(12,697)
Retained earnings	2,188,654	1,858,658
Accumulated other comprehensive income (loss)	1,394	(3,745)
	<hr/>	<hr/>
	2,084,287	1,687,478
	<hr/>	<hr/>
	\$ 4,304,203	\$ 4,185,231
	<hr/>	<hr/>

See accompanying notes.

Table of Contents**CASH FLOWS STATEMENTS**

	Nine Months Ended June 30,	
	2004	2003
(In thousands)		
Operations		
Net income	\$ 434,368	\$ 282,386
Adjustments to reconcile net income to net cash from operations:		
Depreciation and amortization	115,686	102,163
Discounts, premiums and deferred offering costs	14,000	8,296
Stock-based compensation	4,063	2,817
Provision for bad debts	16,044	9,550
Provision for inventory obsolescence	7,530	11,593
Loss on sale of assets	675	124
Loss on redemption of debt	6,891	
(Gain) loss on sale of discontinued operations	(90,820)	12,622
Changes in operating assets and liabilities, net of acquisitions and initial VIE consolidations:		
Receivables	1,160	(112,709)
Inventories	(20,442)	(15,771)
Other current assets	(25,778)	13,727
Other non current assets	(42,062)	(28,424)
Income taxes payable and deferred	33,320	(53,742)
Accounts payable and accrued liabilities	(54,168)	2,813
Net cash from operations	400,467	235,445
Investing		
Investment in property, plant and equipment	(24,359)	(23,253)
Investment in gaming operations equipment	(94,207)	(70,668)
Investment in intellectual property	(22,742)	(7,182)
Proceeds from sale of property, plant and equipment	5,164	463
Proceeds from sale of discontinued operations	151,548	142,507
Proceeds from sale of investment securities		10,000
Investments to fund jackpots:		
Purchases	(24,542)	(19,029)
Proceeds	35,847	28,296
Cash advanced on loans receivable	(20,563)	(11,260)
Payments received on loans receivable	61,604	19,291
Acquisition of business	(109,711)	
Initial consolidation of variable interest entities (VIEs)	47,511	
Net cash from investing	5,550	69,165

Financing

Net (repayments on) proceeds from borrowings	(415,337)	564,176
Premium paid on redemption of debt	(6,368)	
Jackpot liabilities:		
Collections to fund jackpots	204,884	196,966
Payments to winners	(234,418)	(223,055)
Proceeds from employee stock plans	46,300	38,737
Dividends paid	(104,027)	
Share repurchases	(24,054)	(161,321)
	<u> </u>	<u> </u>
Net cash (used for) from financing	(533,020)	415,503
	<u> </u>	<u> </u>
Effect of exchange rates on cash and equivalents	3,013	(3,031)
	<u> </u>	<u> </u>
Net (decrease) increase in cash and equivalents	(123,990)	717,082
Cash and equivalents at:		
Beginning of year	1,311,558	416,707
	<u> </u>	<u> </u>
End of third quarter	\$1,187,568	\$1,133,789
	<u> </u>	<u> </u>

See accompanying notes.

Table of Contents**Supplemental Cash Flows Information**

Depreciation and amortization reflected in the cash flows statements includes the amounts presented separately on the income statements, plus depreciation that is classified as a component of cost of product sales and cost of gaming operations.

	Nine Months Ended June 30,	
	2004	2003
(In thousands)		
Payments of interest	\$ 73,733	\$ 80,375
Payments of income taxes	207,541	217,208
Non-cash items:		
Tax benefit of employee stock plans	33,208	17,912
Treasury stock acquired for stock awards exercised or forfeited	108	
Dividends declared, but not yet paid	34,899	25,796
Interest accretion for investments to fund jackpots	19,465	17,376
Interest accretion on zero-coupon convertible debentures	7,671	4,170
Acquisitions and purchase price adjustments within 12 months subsequent to acquisition:		
Fair value of assets acquired	149,891	(1,892)
Fair value of liabilities assumed	40,180	1,892
Initial consolidation of VIEs:		
Fair value of assets	137,733	
Fair value of liabilities	185,244	

See accompanying notes.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Accounting Policies

Basis of Presentation and Consolidation

Our consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and include all adjustments necessary to fairly present our consolidated results of operations, financial position, and cash flows for each period presented. Results for interim periods are not necessarily indicative of results for the full year. This quarterly report should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2003. Certain prior period amounts have been reclassified to be consistent with the presentation used in the current period.

Our consolidated financial statements include the accounts of International Game Technology and all majority owned or controlled subsidiaries and variable interest entities of which we are the primary beneficiary. All appropriate inter-company accounts and transactions have been eliminated. We account for investments in 50% or less owned joint ventures using the equity method.

Our fiscal year is reported on a 52/53-week period that ends on the Saturday nearest to September 30 in each year. Similarly, our quarters end on the Saturday nearest to the last day of the quarter end month. For simplicity of presentation, all financial statement periods in this report are presented as ending on the calendar month end. The results of operations for fiscal 2004 will contain 53 weeks versus 52 weeks in fiscal 2003. Accordingly, the results of operations for the nine months ended June 30, 2004 contained 40 weeks versus 39 weeks for the nine months ended June 30, 2003. The results of operations for the third quarters ended June 30, 2004 and 2003 both contained 13 weeks.

Recently Issued Accounting Standards

FIN 46

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) 46 (revised December 2003), *Consolidation of Variable Interest Entities* (VIEs). FIN 46 clarifies the application of Accounting Research Bulletin 51, *Consolidated Financial Statements*, establishes standards for determining under what circumstances VIEs should be consolidated with their primary beneficiary, and requires disclosures about significant unconsolidated VIEs. The consolidation requirements of FIN 46 apply immediately to VIEs created after December 31, 2003 and to older entities as of the end of the first period that ends after March 15, 2004. Certain disclosure requirements apply to all financial statements issued after December 31, 2003.

In both Iowa and New Jersey, IGT licenses wide-area progressive (WAP) systems to the trusts and casino members (trustees) that are responsible for the funding of the progressive jackpots. In Iowa, all linked WAP systems are operated under a single trust, administered by IGT, and IGT receives a fee equal to the net profit of the trust. In New Jersey, each WAP system is operated under an individual trust, administered by representatives of the casino members, and IGT receives a flat fee per machine per day.

Prior to the consolidation of the progressive systems trusts' statements of income beginning with our quarter ending June 30, 2004 under the requirements of FIN 46, we recognized revenues from the trusts per the contractual arrangements between IGT and the trusts. In accordance with SEC guidance SAB 101, we recognized revenues when earned and collectibility from the trusts was reasonably assured.

The trusts collect contribution fees from participating casinos members based on a percentage of coin-in generated by the gaming machines. The contribution fees collected by the trusts fund all jackpots liabilities (both won and not yet won) first. When the trusts' historical activities in volume of coin-in and frequency of jackpots indicate that the remaining contribution fees are not sufficient to fund IGT's fees, the trusts may defer payment of IGT's fees. Accordingly, we would refrain from recognizing revenue until such time as the trusts' cash flows indicated that collectibility was reasonably assured.

IGT, as the primary beneficiary, is required to consolidate these trust VIEs. The initial consolidation of the trusts balance sheets at March 31, 2004 added \$185.2 million in total assets and liabilities, primarily consisting of jackpot liabilities and related assets. Beginning with our third quarter ended June 30, 2004, we additionally consolidated \$11.2 million in quarterly revenues and \$11.3 million in related expenses of the trusts, as well as \$187.8 million in total assets and liabilities. The consolidation of the trust VIEs had no material impact to our financial condition or results of operations.

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On October 1, 1996, we adopted Statement of Financial Accounting Standards (SFAS) 123, *Accounting for Stock-Based Compensation*, which established a fair value based method of accounting for stock compensation plans with employees and others. As permitted by SFAS 123, we continue to account for stock-based compensation plans in accordance with Accounting Principles Board (APB) 25, *Accounting for Stock Issued to Employees*, which determines the compensation cost of stock options issued for non-variable plans like ours as the difference between the quoted market value at the measurement date and the amount, if any, required to be paid by employees. Our stock-based compensation plans are predominantly plans where the option price is equal to or greater than the price the stock would be in an offer to all shareholders and therefore, no compensation cost is recorded. Compensation cost is incurred, however, when the terms of an outstanding option are modified or converted in an acquisition.

The following pro forma net income and earnings per share (EPS) reflects the difference between stock compensation costs charged to operations under the APB 25 intrinsic value method and pro forma stock compensation costs that would have been recorded if the SFAS 123 fair value method had been applied to all awards granted, modified, or settled since the beginning of fiscal 1996. The Black-Scholes option pricing model used in this valuation was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. IGT's employee stock-based compensation has characteristics significantly different from those of traded options, and changes in the assumptions used can materially affect the fair value estimate.

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
(In thousands, except per share amounts)				
Reported net income	\$ 141,102	\$ 103,685	\$ 434,368	\$ 282,386
Reported stock compensation, net of tax	903	618	2,580	1,766
Pro forma stock compensation, net of tax	(7,278)	(5,771)	(22,399)	(15,789)
Pro forma net income	134,727	98,532	414,549	268,363
After-tax interest expense on convertible debentures	2,338		4,642	
Pro forma diluted EPS numerator	\$ 137,065	\$ 98,532	\$ 419,191	\$ 268,363
Basic EPS				
As reported	\$ 0.40	\$ 0.30	\$ 1.25	\$ 0.82
Pro forma	0.39	0.29	1.19	0.78
Diluted EPS				
As reported	\$ 0.38	\$ 0.30	\$ 1.19	\$ 0.80
Pro forma	0.36	0.28	1.13	0.76

3. Inventories

Inventories consisted of the following:

(In thousands)	June 30, 2004	September 30, 2003
Raw materials	\$ 79,752	\$ 71,263
Work-in-process	5,932	7,622
Finished goods	79,756	68,181
	<hr/>	<hr/>
Total inventories	\$165,440	\$147,066
	<hr/>	<hr/>

Table of Contents**4. Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

(In thousands)	June 30, 2004	September 30, 2003
Land	\$ 19,993	\$ 20,112
Buildings	89,229	83,870
Gaming operations equipment	363,954	296,288
Manufacturing machinery and equipment	204,771	168,317
Leasehold improvements	8,045	7,973
Construction in process	6,898	24,030
	<hr/>	<hr/>
Total	692,890	600,590
Less accumulated depreciation	(401,331)	(338,970)
	<hr/>	<hr/>
Property, plant and equipment, net	\$ 291,559	\$ 261,620
	<hr/>	<hr/>

5. Acquisitions, Divestitures and Discontinued Operations**Acquisitions***Acres*

On October 27, 2003, IGT completed the acquisition of Acres Gaming (Acres), which specializes in the development of gaming systems technology designed to assist casino operators in increasing patron loyalty. This business combination will provide us the ability to work more closely with the Acres gaming systems technology to develop more integrated gaming systems products, as well as increase our competitive marketing capacity.

Under the terms of the agreement, IGT paid \$11.50 in cash for each outstanding share of Acres common stock for an aggregate purchase price of approximately \$134.0 million. Under the guidance of SFAS 141, *Business Combinations*, we have substantially completed our evaluation of the purchase price allocation to total assets and liabilities. See Note 8 for the purchase price allocation to identifiable intangibles and goodwill. We have not provided pro forma financial information including Acres prior to the acquisition, as it was not material to our consolidated results. The following table summarizes the values assigned to the assets acquired and liabilities assumed.

(In millions)	
Current assets	\$ 44.7
Identifiable intangibles	49.0
Goodwill	75.3

Non-current assets	5.2
	<hr/>
Total assets acquired	174.2
	<hr/>
Current liabilities	22.5
Non-current liabilities	17.7
	<hr/>
Total liabilities assumed	40.2
	<hr/>
Purchase price	\$134.0
	<hr/>

Divestitures and Discontinued Operations

During fiscal 2003, we divested certain non-core businesses acquired with Anchor Gaming (Anchor) on December 30, 2001, including our slot route operations in Nevada, two casinos in Colorado and our pari-mutuel systems operations, United Tote. The sale of our online lottery system operations, IGT OnLine Entertainment Systems, Inc., and the lottery systems business of VLC, Inc., collectively referred to as OnLine Entertainment Systems (OES), was completed in November 2003. Cash proceeds, including the final working capital adjustment, totaled \$151.5 million, resulting in a gain of \$56.8 million, net of tax. These operations were reflected in discontinued operations for all periods presented.

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The results of our discontinued operations were comprised of:

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
(In thousands)				
Net revenue	\$	\$46,026	\$ 13,558	\$ 184,353
	■	■	■	■
Income before tax	\$	\$ 7,911	\$ 3,416	\$ 26,659
Provision for income taxes	-	(2,940)	(1,254)	(10,009)
	-	■	■	■
Income, net of tax	-	4,971	2,162	16,650
	-	■	■	■
Gain (loss) on sale before tax		(1,861)	90,820	(12,622)
Benefit (provision) for income taxes	-	694	(34,058)	4,710
	-	■	■	■
Gain (loss) on sale, net of tax	-	(1,167)	56,762	(7,912)
	-	■	■	■
Discontinued operations, net of tax	\$	\$ 3,804	\$ 58,924	\$ 8,738
	■	■	■	■

Assets and liabilities related to discontinued operations were comprised of:

September 30, 2003**(In thousands)**

Cash	\$ 8,159
Accounts receivable, net	11,795
Other current assets	1,205
Property and equipment, net	28,880
Intangible assets	19,776
Goodwill	
Other non-current assets	152
	■
Total assets of discontinued operations held for sale	\$69,967
	■

Current liabilities	\$17,576
Non-current liabilities	_____
 Total liabilities of discontinued operations	 \$17,576 _____
 Other balances related to discontinued operations included:	
Deferred compensation	\$ 2,215
Deferred tax liabilities	7,840

Additionally, as a result of integrating certain VLC, Inc. operations acquired with Anchor into our Reno, Nevada facility in June 2003, we reclassified \$4.5 million related to the Bozeman, Montana building to other assets held for sale. Based on market factors and pending purchase offers, we recognized estimated losses of \$0.8 million in the first half of fiscal 2004, and \$0.2 million in fiscal 2003, reducing the property value to \$3.8 million. The final sale closed on April 7, 2004.

6. Notes and Contracts Receivable

Allowances for doubtful notes and contracts:

(In thousands)	June 30, 2004	September 30, 2003
	_____	_____
Current	\$24,988	\$20,393
Long-term	16,760 _____	13,645 _____
	\$41,748 _____	\$34,038 _____

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The financial instruments that potentially subject us to concentrations of credit risk consist principally of cash or equivalents and receivables. We maintain cash balances at several financial institutions in amounts which may at times be in excess of the Federal Deposit Insurance Corporation insurance limits.

Our receivables are concentrated in specific legalized gaming regions. The table below shows the composition of our accounts, contracts, and notes receivable at June 30, 2004.

Domestic Region	
Nevada	26%
California	18
Eastern region	10
Canada	8
New Jersey	5
Other (3% or less individually)	19
	<hr/>
Total domestic	86
	<hr/>
International Region	
Europe	9
Other (3% or less individually)	5
	<hr/>
Total international	14
	<hr/>
Total	100%
	<hr/>

8. Intangibles and Goodwill

The tables below include our Acres purchase price allocation to identifiable intangibles and goodwill. In-process research and development (R&D) was charged to R&D expense immediately subsequent to acquisition because no future alternative use existed. The Acres goodwill is not deductible for tax purposes. Other patent additions included purchased patents and capitalized legal costs for patent applications.

Intangible Additions

<u>Nine months ended June 30, 2004</u>	<u>Acres</u>	<u>Other</u>	<u>Weighted</u>
	<u>Acquisition</u>	<u>Additions</u>	<u>Average</u>
			<u>Life</u>
			<u>(years)</u>

(In thousands, except life)

Finite lived intangibles:

Patents	\$12,600	\$18,145	13
Contracts		4,597	3
Trademarks	800		2
Developed technology	21,900		13
Customer relationships	5,800		13
Backlog	6,100		1
In-process R&D	1,800		
	<u> </u>	<u> </u>	
Total	\$49,000	\$22,742	
	<u> </u>	<u> </u>	

Intangible Balances

	June 30, 2004			September 30, 2003		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
(In thousands)						
Finite lived intangible assets:						
Patents	\$281,605	\$ 58,334	\$223,271	\$251,076	\$ 40,281	\$210,795
Contracts	8,094	1,831	6,263	3,500	738	2,762
Trademarks	8,093	5,495	2,598	7,293	4,092	3,201
Developed technology	24,218	2,958	21,260	2,318	892	1,426
Customer relationships	5,800	117	5,683			
Backlog	6,100	4,066	2,034			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net carrying amount	\$333,910	\$ 72,801	\$261,109	\$264,187	\$ 46,003	\$218,184
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**Amortization of Intangibles**

Our aggregate amortization expense totaled \$9.2 million in the current quarter compared to \$5.9 million in the prior year quarter and \$26.9 million in the nine months just ended compared to \$19.1 million in the prior year period. The following is our estimated annual amortization expense for the current and succeeding fiscal years:

Fiscal Year	Amortization
(In millions)	
2004	\$36.4
2005	32.3
2006	29.9
2007	27.7
2008	25.3

Goodwill Changes and Balances by Segment

(In thousands)	Product Sales	Proprietary Gaming	Total
Balance at beginning of year	\$108,246	\$872,181	\$ 980,427
Acres acquisition	75,271		75,271
Foreign currency translation adjustment	3,965		3,965
	<hr/>	<hr/>	<hr/>
Balance at June 30, 2004	\$187,482	\$872,181	\$1,059,663
	<hr/>	<hr/>	<hr/>

9. Notes Payable

(In thousands)	June 30, 2004	September 30, 2003
Senior notes, net of unamortized discount	\$ 557,657	\$ 964,497
Zero-coupon senior convertible debentures, net of unamortized discount	589,292	581,622
Foreign credit facilities		6,787
	<hr/>	<hr/>
Total outstanding	1,146,949	1,552,906
Less current maturities	(366,259)	(406,147)
	<hr/>	<hr/>
	\$ 780,690	\$1,146,759

Long-term notes payable, net of current maturities

We continue to be in full compliance with all covenants contained in all debt agreements at June 30, 2004.

Senior Credit Facility

IGT entered into a new \$1.5 billion senior credit facility (credit facility) with a syndicate of banks on July 1, 2004, replacing the previous credit facility of \$260.0 million. The credit facility is structured in two components both with five year maturities:

a \$1.3 billion revolver, of which \$3.8 million was reserved for letters of credit at the end of the current quarter

a \$200.0 million term loan funded on July 15, 2004 in conjunction with the early redemption of our 2009 senior notes

The interest rates applicable to the credit facility are based on our public credit ratings and debt to capitalization ratio. Initially these rates were set at LIBOR plus 60.0 basis points (bps) for both the revolver and the term loan. A facility fee of 15.0 bps applies to the entire credit facility.

Financial covenants for the credit facility include a maximum leverage ratio (as defined in the agreement) of 4:1 and a minimum interest coverage ratio (as defined in the agreement) of 3:1. The credit facility agreement also includes certain restrictions on our ability to incur new indebtedness, issue guarantees, or make acquisitions.

If IGT is not in compliance with the required covenant ratios, an event of default would occur, which if not cured, could cause the entire outstanding borrowings under the credit facility to become immediately due and payable, as well as trigger cross default provisions to other debt issues.

Table of Contents**Foreign Credit Facilities**

Our available foreign credit facilities totaled \$24.0 million at June 30, 2004 and expire at various times through July 2005.

Senior Notes

On July 16, 2004, we redeemed all of the remaining \$569.6 million principal outstanding 2009 senior notes, using available cash and the proceeds of the new \$200.0 million term loan. The portion of the senior notes not refinanced with the new term loan totaled \$366.3 million, net of discount, and was classified as current maturities of long-term debt at June 30, 2004. Including the cancellation of corresponding interest rate swaps, we will recognize a loss of approximately \$121.0 million or \$76.9 million, net of tax, on this early debt retirement in our fourth quarter ending September 30, 2004.

In February 2004, we recognized a loss of \$6.9 million or \$4.3 million, net of tax, related to the early redemption of our \$400.0 million senior notes due May 2004. Losses on early redemptions of debt were included in other expense.

Senior Convertible Debentures

The market price condition for convertibility of our debentures was met during the conversion periods ended January 20, April 20, and July 20, 2004. As a result, the if-converted method of calculating diluted earnings per share applies to our second, third, and fourth quarters of fiscal 2004. We will include the dilutive effect of outstanding debentures for all future periods that the conversion requirements are met. See Note 10.

10. Earnings Per Share

The reconciliation of diluted EPS below reflects the if-converted method of accounting for our convertible debentures since first meeting the conversion criteria in the second quarter of 2004.

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
(In thousands, except per share amounts)				
Income from continuing operations	\$141,102	\$ 99,881	\$375,444	\$273,648
After-tax interest expense on convertible debentures	2,338	—	4,642	—
Diluted EPS Numerator	\$143,440	\$ 99,881	\$380,086	\$273,648
Basic weighted average common shares outstanding	348,426	342,367	346,921	344,009
Dilutive effect of stock awards outstanding	9,525	7,388	9,653	6,969
Dilutive effect of convertible debentures	20,531	—	13,345	—
Dilutive EPS Denominator	378,482	349,755	369,919	350,978

	_____	_____	_____	_____
Basic earnings per share	\$ 0.40	\$ 0.29	\$ 1.08	\$ 0.80
Diluted earnings per share	\$ 0.38	\$ 0.29	\$ 1.03	\$ 0.78
Common stock award shares excluded from diluted EPS because the effect was antidilutive	699	816	318	864
Common shares excluded from diluted EPS because the conversion event for our debentures had not occurred		20,531		20,531

Since the end of the current period through August 11, 2004, we repurchased 3.0 million additional common shares or approximately 1% of outstanding shares. There were no other transactions in the same period that would have materially changed the number of basic or diluted shares outstanding.

Table of Contents**11. Income Taxes**

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

Our current quarter results included a \$10.3 million reduction to the provision for income taxes due to the utilization of prior year foreign income tax credits resulting from changes to the geographic mix of estimated annual taxable income. We now consider the utilization of foreign tax credits probable and have included foreign income tax credits in our effective tax rate calculation. Excluding the \$10.3 million reduction, we have adjusted our annual tax rate on continuing operations to 36.5% from 37.0%. The tax rate on discontinued operations remained unchanged at 37.5%.

12. Comprehensive Income

Other comprehensive income (loss) presented below included currency translation adjustments and net unrealized gains and losses on investment securities.

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
(In thousands)				
Net income	\$ 141,102	\$ 103,685	\$ 434,368	\$ 282,386
Other comprehensive income (loss)	(128)	2,953	5,139	2,155
Comprehensive income	\$ 140,974	\$ 106,638	\$ 439,507	\$ 284,541

13. Commitments and Contingencies**Litigation**

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

Miller

In June 2003, a class action lawsuit was filed in Clark County, Nevada District Court against Acres and its directors, entitled Paul Miller v. Acres Gaming Incorporated, et al., (Case No. 470016). The complaint alleged that Acres directors breached their fiduciary duties to their stockholders in connection with the approval of the merger transaction between Acres and IGT and sought to enjoin and/or void the merger agreement among other forms of relief. On September 19, 2003, the Court denied plaintiff's motion for a temporary restraining order (TRO) to prevent Acres stockholders from voting on the merger. On September 24, 2003, plaintiff petitioned the Nevada Supreme Court

to vacate the denial of the TRO and to enjoin Acres from holding its stockholder vote on the merger. The Nevada Supreme Court denied the petition on September 25, 2003. The plaintiff's action also seeks damages. On December 23, 2003, defendants filed a motion to dismiss plaintiff's second amended complaint for failure to state a claim on which relief may be granted. On April 29, 2004, the Court issued a ruling denying defendant's motion to dismiss the second amended complaint. We believe that the plaintiff's claims for damages are without merit.

Poulos

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

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March 2002, the Court directed that certain merits discovery could proceed. In June 2002, the Court denied the plaintiffs' motion for class certification. An appeal of that denial was filed timely with the US Court of Appeals for the Ninth Circuit. All briefings were completed and oral arguments were heard in January 2004. On August 10, 2004, a three-judge panel of the Ninth Circuit Court of Appeals (CCA) upheld U.S. District Court Judge Roger Hunt in his denial of class certification. The class plaintiffs may attempt to get the Ninth CCA to reconsider the matter en banc or file a petition with the U.S. Supreme Court.

Nevada Sales/Use Tax Matter

In February 2003, an IGT employee, presently on administrative leave, filed a sealed complaint under Nevada's False Claims Act (*State of Nevada ex rel. James McAndrews v. International Game Technology, Anchor Coin and Spin for Cash Wide Area Progressive*, CV03-01329, 2d Jud. Dist. Court of Nevada) alleging that IGT failed to pay requisite Nevada sales/use taxes on certain *Wheel of Fortune*® games placed in Nevada since 1997 and in connection with royalties received under intellectual property licensing agreements related to the placement of Action Gaming games in Nevada since 1997. The Attorney General and IGT both filed motions to dismiss the complaint in January 2004, and the Court unsealed the action in February 2004. The Court denied both motions to dismiss the complaint on July 1, 2004.

OSHA Matter

On July 8, 2004, two former employees filed a complaint with the U.S. Department of Labor, Occupational Safety and Health Administration, alleging retaliatory termination in violation of the Sarbanes-Oxley Act of 2002. The former employees allege that they were terminated in retaliation for questioning whether Anchor Gaming (Anchor) and its executives failed to properly disclose information allegedly affecting the value of Anchor's patents in connection with IGT's acquisition of Anchor in 2001. The former employees also allege that the acquired patents are overvalued on the financial statements of IGT. Outside counsel, retained by an independent committee of the Board of Directors, reviewed the allegations and found them to be entirely without merit. In the purchase price allocation, IGT used the relief of royalty valuation methodology to estimate the fair value of the patents at \$164.4 million, which is being amortized over the useful economic life. The carrying value of the patents at June 30, 2004 totaled \$128.1 million, with a remaining life of approximately 12 years.

Environmental Matter

Colorado Central Station Casino (CCSC), a casino operation sold by IGT in April 2003, is located in an area that has been designated by the Environmental Protection Agency (EPA) as a superfund site as a result of contamination from historic mining activity in the area. The EPA is entitled to proceed against current and prior owners or operators of properties located within the site for associated remediation and response costs. CCSC is located within the drainage basin of North Clear Creek and is therefore subjected to potentially contaminated surface and ground water from upstream mining related sources. Soil and ground water samples on the site indicate that several contaminants exist in concentrations exceeding drinking water standards. No litigation has commenced, nor has a claim on assessment been asserted. Therefore, under the guidance of AICPA Statement of Position 96-1, *Environmental Remediation Liabilities*, no liability has been incurred or accrued at this time.

Arrangements with Off-Balance Sheet Risks

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

Performance Bonds

Outstanding performance bonds related to our gaming operations totaled \$11.1 million at June 30, 2004. We are liable to reimburse the bond issuer in the event the bonds are exercised as a result of our nonperformance.

Letters of credit issued and outstanding under our line of credit to insure payment to certain vendors and governmental agencies totaled \$3.8 million at June 30, 2004.

IGT Licensor Arrangements

Our sales agreements that include software and intellectual property licensing arrangements may provide a clause whereby IGT indemnifies the third party licensee against liability and damages (including legal defense costs) arising from any claims of patent, copyright, trademark or trade secret infringement. Should such a claim occur, we could be required to make payments to the licensee for any liabilities or damages incurred. We are not able to estimate the maximum potential amount of future payments under this guarantee because it depends on the occurrence of future events.

Table of Contents*Product Warranties*

We accrue for warranty costs based on historical trends in product failure rates and the expected material and labor costs to provide warranty services. The majority of our products are generally covered by a warranty for periods ranging from 90 days to one year. The following table summarizes the activities related to our product warranty liability.

Nine months ended June 30,	2004	2003
(In thousands)		
Balance at beginning of year	\$ 6,104	\$ 3,332
Reduction for payments made	(2,587)	(1,522)
Accrual for new warranties issued	3,050	4,950
Adjustments for pre-existing warranties	(361)	(229)
	<hr/>	<hr/>
Balance at end of period	\$ 6,206	\$ 6,531
	<hr/>	<hr/>

Self-Insurance

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

State and Federal Taxes

We are subject to sales, use, income and other tax audits and administrative proceedings in various federal, state, and local 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.

14. Derivatives and Hedging Activities

We recognize all derivatives as either assets or liabilities at the fair value of the instruments. Accounting for changes in the fair value of derivatives depends on the intended use and resulting designation. We use derivative financial instruments to minimize our market risk exposure resulting from fluctuations in foreign exchange rates and interest rates. The primary business objective of our hedging program, as defined in our corporate risk management policy, is to minimize the impact of transaction, remeasurement, and specified economic exposures to our net income and earnings per share. The counter parties to these instruments are major commercial banks and we believe that losses related to credit risk are remote. We are not party to leveraged derivatives and do not hold or issue financial instruments for speculative purposes.

Foreign Currency Hedging

We routinely use derivative financial instruments to hedge our net exposure, by currency, related to our monetary assets and liabilities denominated in nonfunctional foreign currency. These hedging instruments are subject to

fluctuations in value that are generally offset by the value of the underlying exposures being hedged. These forward exchange contracts are not designated as hedging instruments under SFAS 133 and resulting gains or losses are recognized in current earnings.

From time to time, we enter into sales commitments denominated in foreign currencies. Our policy is to hedge significant firm commitments denominated in foreign currency with forward exchange contracts to protect the US dollar value of the revenues. These forward exchange contracts have been designated as fair value hedges under SFAS 133 and related gains or losses are included as a component of the hedged transaction when recorded. Gains and losses related to the hedge ineffectiveness are recorded in other income or expense. Time value is excluded from effectiveness testing.

At June 30, 2004, our net foreign currency exposure of \$36.4 million related to our monetary assets and liabilities denominated in nonfunctional currency was hedged with \$20.5 million in forward currency contracts. At September 30, 2003, our net foreign currency exposure of \$39.7 million related to our monetary assets and liabilities denominated in nonfunctional currency was hedged with \$28.1 million in forward contracts.

Interest Rate Management

In the fourth quarter of fiscal 2003, we entered into four interest rate swap agreements with a combined notional amount of \$350.0 million, primarily to diversify a portion of our debt portfolio between fixed and variable rate instruments. Under the terms of the interest rate swaps, we will make payments based on a specific spread

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over six-month LIBOR and receive payments equal to the interest rate on our fixed rate senior notes due in 2009. These interest rate swaps are fair value hedges, which qualify for the shortcut method of accounting under SFAS 133, allowing for an assumption of no ineffectiveness in the hedging relationship. Accordingly, we recorded the change in the fair value of the swap instruments as non-current assets or liabilities with an offsetting adjustment to the carrying value of the related debt. These swaps were cancelled on July 9, 2004 in conjunction with the early redemption of our senior notes on July 16, 2004. See Note 9.

Convertible Debentures Yield Adjustment

The yield adjustment feature of our debentures requires contingent cash interest payments that are triggered by our stock price and is thus considered an embedded derivative under SFAS 133 requiring bifurcation. However, if an upward adjustment were anticipated to go into effect, IGT could exercise its redemption right. Therefore, an investor could be expected to attribute no economic value to the yield adjustment feature. Accordingly, we have ascribed no value and recorded no derivative asset or liability for this embedded derivative.

15. Business Segments

On a consolidated basis, we do not recognize inter-company revenues or expenses upon the transfer of gaming products between subsidiaries. IGT's segment profit reflects income from continuing operations before tax, including an applicable allocation of operating expenses, as well as other income and expense. Depreciation and amortization reflected below includes the amounts presented separately on the income statements, plus depreciation that is classified as a component of cost of product sales and cost of gaming operations. Prior year amounts have been reclassified to conform to the current management view and presentation.

IGT operates principally in the following lines of business:

Product sales encompasses the design, development, manufacturing, marketing, distribution and sales of computerized gaming products and systems. Revenues in this segment are generated from the sale of gaming machines, systems, royalty and license fees, parts, conversion kits, content fees, equipment and services

Proprietary gaming includes the design, development, manufacturing, marketing and distribution of our proprietary games under a variety of recurring revenue pricing arrangements including:

MegaJackpots WAP systems

stand-alone participation and flat fee

equipment leasing and rental

hybrid pricing products that include a recurring fee attached to a for-sale game

Corporate consists primarily of unallocated interest income and expense

	Quarters Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
(In thousands)				
Product sales				

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Revenues	\$315,582	\$300,068	\$1,008,419	\$ 795,847
Segment profit	101,366	87,974	319,701	219,146
Segment profit margin	32%	29%	32%	28%
Proprietary gaming				
Revenues	303,305	261,853	854,613	784,795
Segment profit	116,774	93,353	322,921	283,356
Segment profit margin	39%	36%	38%	36%
Corporate				
Segment loss	(15,081)	(23,909)	(67,592)	(66,165)
Consolidated				
Revenues	618,887	561,921	1,863,032	1,580,642
Segment profit	203,059	157,418	575,030	436,337

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

COMPANY OVERVIEW

International Game Technology is a world leader in the design, development, manufacturing, distribution and sales of computerized gaming machines and systems products in all jurisdictions where gaming is legal. Unless the context indicates otherwise, references to International Game Technology, IGT, we, our, or the Company includes International Game Technology and its majority owned or controlled subsidiaries and VIEs. The discussion and analysis that follows should be read in conjunction with our Annual Report on Form 10-K for the year ended September 30, 2003.

In this document, italicized text with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors. For a complete list of trademark and copyright ownership information, please visit our website at www.IGT.com.

Our continuing operations consist of two lines of business: product sales and proprietary gaming. Revenues in our product sales segment are generated from the sale of gaming machines, systems, royalty and license fees, parts, conversion kits, content fees, equipment and services. Revenues in our proprietary gaming segment are of a recurring nature based on the placement of gaming machines and equipment under various participation or flat fee arrangements.

Discontinued operations related to various Anchor operations divested subsequent to our December 2001 acquisition of Anchor. See Note 5 of our Unaudited Condensed Consolidated Financial Statements.

We completed our acquisition of Acres on October 27, 2003, which contributed additional systems product sales to our consolidated operating income results. Acres contributed \$10.2 million in revenues and \$6.5 million in gross profits to the third quarter just ended, adding a total of \$40.6 million in revenues and \$25.2 million in gross profits for the first nine months of fiscal 2004.

In the second quarter of fiscal 2004, we adopted FIN 46, *Consolidation of Variable Interest Entities*. The initial consolidation of the trusts' balance sheets at March 31, 2004 added \$185.2 million in total assets and liabilities, primarily consisting of jackpot liabilities and related assets. Beginning with our third quarter ended June 30, 2004, we additionally consolidated \$11.2 million in quarterly revenues and expenses of the trusts, as well as \$187.8 million in total assets and liabilities. Although these VIE consolidations had no material impact to gross profit or net income, our proprietary gaming gross margin was reduced by approximately 2%.

The market price condition for convertibility of our debentures was met during the conversion periods ended January 20, April 20, and July 20, 2004. As a result, the if-converted method of calculating diluted earnings per share applies to our second, third, and fourth quarters of fiscal 2004. We will include the dilutive effect of our outstanding debentures for all future periods that the conversion requirements are met. See Note 10 of our Unaudited Condensed Consolidated Financial Statements for the computation of diluted earnings per share from continuing operations. We anticipate fourth quarter diluted EPS will be approximately \$0.01 less than it would be if the condition for convertibility was not met.

Table of Contents**OVERALL CONSOLIDATED OPERATING RESULTS**

(In millions, except earnings per share)	Quarters Ended June 30,				Nine Months Ended June 30,			
	2004	2003	Increase (Decrease)	% Change	2004	2003	Increase (Decrease)	% Change
Revenue	\$618.9	\$561.9	\$ 57.0	10%	\$1,863.0	\$1,580.6	\$ 282.4	18%
Gross profit	338.3	279.0	59.2	21%	998.4	796.3	202.1	25%
Gross margin	55%	50%	5%	10%	54%	50%	4%	6%
Operating income	\$211.1	\$173.6	\$ 37.5	22%	\$ 619.3	\$ 483.7	\$ 135.7	28%
Operating margin	34%	31%	3%	10%	33%	31%	2%	9%
Income from continuing operations	\$141.1	\$ 99.9	\$ 41.2	41%	\$ 375.4	\$ 273.6	\$ 101.8	37%
Income from discontinued operations		3.8	(3.8)	*	58.9	8.7	50.2	*
Net income	141.1	103.7	37.4	36%	434.4	282.4	152.0	54%
Diluted earnings per share:								
Continuing operations	\$ 0.38	\$ 0.29	\$ 0.09	31%	\$ 1.03	\$ 0.78	\$ 0.25	32%
Discontinued operations		0.01	(0.01)	*	0.16	0.02	0.14	*
Net income	0.38	0.30	0.08	27%	1.19	0.80	0.39	49%

* *Not meaningful*

IGT achieved record financial results in both the third quarter and first nine months of fiscal 2004. Our proprietary gaming segment improved during the current quarter due to increased game placements from growth in various new markets. The product sales segment grew in the current nine months as a result of continued replacement demand across our domestic and international markets.

Significant items affecting comparability of income from continuing operations in the current quarter and nine months to the prior year periods included:

a reduction to the provision for income taxes due to the utilization of foreign income tax credits resulting in an increase of \$0.03 per diluted share in the third quarter of fiscal 2004

the second quarter loss on the early retirement of our senior notes due May 2004 totaling \$4.3 million after tax, or \$0.01 per diluted share included in the current nine months

the second quarter \$3.2 million after tax charge related to our 5-year commitment for contributions to the University of Nevada, or \$0.01 per diluted share, included in the current nine months

a reduction of \$0.01 per diluted share in the current quarter and \$0.02 per diluted share in the current nine months related to the effect of applying the if-converted method of accounting for our debentures (See Note 10 of our Unaudited Condensed Consolidated Financial Statements)

Additionally, the first nine months in our current year included one additional week due to the timing of our 52/53-week accounting year. The extra week primarily impacted proprietary gaming, resulting in increases of approximately \$19.9 million to revenues, \$11.1 million to gross profit and \$8.0 million to operating expenses.

Operating Expenses

	Quarters Ended June 30,		Increase (Decrease)	%	Nine Months Ended June 30,		Increase (Decrease)	%
	2004	2003			2004	2003		
(In millions)								
Selling, general and administrative	\$ 72.9	\$ 68.0	\$ 5.0	7%	\$220.2	\$200.0	\$ 20.2	10%
Depreciation and amortization	16.6	11.3	5.3	47%	47.2	35.5	11.7	33%
Research and development	32.8	23.7	9.2	39%	95.7	67.6	28.1	42%
Provision for bad debts	4.8	2.5	2.2	88%	16.0	9.6	6.5	68%
Total	\$127.2	\$105.5	\$ 21.7	21%	\$379.1	\$312.6	\$ 66.4	21%
Percent of revenue	21%	19%	2%	11%	20%	20%		

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Operating expenses for the third quarter and nine months ended June 30, 2004 increased over the comparable prior year periods due to:

the inclusion of Acres which added \$8.1 million in operating expenses for the current quarter and \$23.3 million for the current nine months including in-process R&D charges of \$1.8 million

additional R&D costs to support our commitment to develop innovative games, platforms and systems, as well as our entry into central determination markets

our second quarter commitment to donate \$5.0 million to the University of Nevada included in the current nine month period

increased bad debt expense in the current quarter primarily due to a Latin America recovery in the prior year quarter

The first nine months of fiscal 2004 also included approximately \$8.0 million in additional operating expenses as a result of the extra week in the first quarter.

Other Income (Expense) and Taxes

	Quarters Ended June 30,		Increase (Decrease)	%	Nine Months Ended June 30,		Increase (Decrease)	%
	2004	2003			2004	2003		
(In millions)								
Interest income	\$ 15.7	\$ 14.1	\$ 1.5	11%	\$ 43.8	\$ 38.8	\$ 5.0	13%
Interest expense	(22.6)	(31.2)	(8.5)	(27%)	(76.8)	(87.1)	(10.3)	12%
Other	(1.0)	0.9	(1.9)	*	(11.3)	1.0	(12.3)	*
Other expense, net	\$ (8.0)	\$ (16.1)	\$ (8.1)	50%	\$ (44.3)	\$ (47.3)	\$ (3.0)	6%
Provision for income taxes	\$ 62.0	\$ 57.5	\$ 4.4	8%	\$ 199.6	\$ 162.7	\$ 36.9	23%
Tax rate	30.5%	36.6%	(6.1%)	(17%)	34.7%	37.3%	(2.6%)	(7%)

* *Not meaningful*

Other expense, net, for the third quarter and first nine months of fiscal 2004 decreased over the same periods in the prior year due to:

decreased interest expense resulting from the early redemption in February 2004 of our \$400.0 million senior notes due May 2004

partially offset by the \$6.9 million pre-tax loss related to the early redemption and \$2.6 million in litigation settlement charges included in the current nine month period

The pre-tax interest savings on the early redemption of the \$400.0 million senior notes totaled \$3.9 million for the

current quarter and \$8.3 million for the current nine months. Additionally, in the fourth quarter of fiscal 2004 we expect further pre-tax interest savings of approximately \$7.3 million from the early redemption of our 2009 senior notes on July 16, 2004.

Including the cancellation of corresponding interest rate swaps, we will recognize a loss of approximately \$121.0 million or \$76.9 million, net of tax, on early debt retirement in our fourth quarter of fiscal 2004. (See Note 9 of our Unaudited Condensed Consolidated Financial Statements).

Operation of our progressive systems games resulted in interest income accretion from annuity investments purchased to fund installment jackpot payments and interest expense accrued on related liabilities to jackpot winners. Interest income and expense related to funding installment-based jackpot payments are similar and increase at approximately the same rate based on the growth in total jackpot winners electing installment payments. Interest income and expense related to progressive systems annuities totaled \$7.9 million in the current quarter and \$5.8 million in the prior year quarter and \$19.5 million for the current nine months and \$17.3 million in the comparative nine month period. Additionally, the VIE consolidation added \$2.2 million to interest income and \$2.1 million to interest expense in the current quarter.

Our current quarter results included a \$10.3 million reduction to the provision for income taxes due to the utilization of prior year foreign income tax credits resulting from changes to the geographic mix of estimated annual taxable income. We now consider the utilization of foreign tax credits probable and have included foreign income tax credits in our effective tax rate calculation. Excluding the \$10.3 million reduction, we have adjusted our annual tax rate on continuing operations from 37.0% to 36.5%. The tax rate on discontinued operations remained unchanged at 37.5%.

Table of Contents**BUSINESS SEGMENT RESULTS**

IGT's segment profit reflects income from continuing operations before tax, including an applicable allocation of operating expenses, as well as other income and expense. Prior period amounts have been reclassified to conform to the current management view and presentation. See Note 15 of our Unaudited Condensed Consolidated Financial Statements.

Product Sales*Worldwide Product Sales*

(In millions, except units and ARUS)	Quarters Ended June 30,		Increase (Decrease)	%	Nine Months Ended June 30,		Increase (Decrease)	%
	2004	2003			2004	2003		
Revenues	\$ 315.6	\$ 300.1	\$ 15.5	5%	\$ 1,008.4	\$ 795.8	\$ 212.6	27%
Gross profit	171.8	143.5	28.3	20%	529.8	381.3	148.5	39%
Gross margin	54%	48%	6%	14%	53%	48%	5%	10%
Operating expenses	\$ 75.7	\$ 61.7	\$ 13.9	23%	\$ 221.9	\$ 177.8	\$ 44.1	25%
Operating income	96.1	81.8	14.3	18%	307.9	203.5	104.3	51%
Segment profit	101.4	88.0	13.4	15%	319.7	219.1	100.6	46%
Segment profit margin	32%	29%	3%	10%	32%	28%	4%	15%
Units shipped	35,100	37,500	(2,400)	(6%)	126,600	102,000	24,600	24%
Average revenue per unit shipped (ARUS)	\$ 9,000	\$ 8,000	\$ 1,000	13%	\$ 8,000	\$ 7,800	\$ 200	2%

Segment profit from worldwide product sales improved during the third quarter and first nine months of fiscal 2004 due to stronger domestic pricing realization, increased domestic gaming systems revenues, improved geographical mix of international machines sales and favorable foreign currency exchange rates.

Improvements in our consolidated product sales gross margins in the current periods related to:

lower material costs coupled with operational efficiencies in our Reno manufacturing facility

increased domestic and international ARUSs due to a greater mix of systems and conversion related revenues

strong pricing realization as we continue to provide our customers with an extensive library and a broad array of game content across all of our product offerings

We expect our consolidated product sales gross margin to run approximately 52% to 53% for the remainder of fiscal 2004. Our consolidated gross margin may fluctuate depending on the geographic and product mix, including the contribution of systems and conversions revenues, the level of pricing realization, the proportionate share of international sales and changes in foreign exchange rates.

Table of Contents**Domestic Product Sales**

	Quarters Ended June 30,				Nine Months Ended June 30,			
	2004	2003	Increase (Decrease)	% Change	2004	2003	Increase (Decrease)	% Change
(In millions, except units and ARUS)								
Revenues	\$ 243.1	\$ 242.6	\$ 0.5		\$ 755.7	\$ 627.3	\$ 128.4	20%
Gross profit	136.6	119.7	16.8	14%	413.4	309.4	104.0	34%
Gross margin	56%	49%	7%	14%	55%	49%	6%	11%
Units shipped	22,500	24,200	(1,700)	(7%)	72,300	63,200	9,100	14%
Replacement	17,800	17,500	300	2%	57,500	42,500	15,000	35%
New/Expansion	4,700	6,700	(2,000)	(30%)	14,800	20,700	(5,900)	(29%)
ARUS	\$10,800	\$10,000	\$ 800	8%	\$10,500	\$ 9,900	\$ 600	5%

Domestic product sales revenues, ARUSs and gross profit improved in the current periods due to:

increased replacement units

stronger pricing realization

greater systems related revenues, largely related to the Acres contribution

additional non-machine related revenues

Domestic gross profit and margins also increased during the current quarter and nine months as a result of:

lower material costs coupled with operational efficiencies

increased ARUSs

improved product mix

Domestic units shipped in the current quarter were down slightly from the prior year quarter due to fewer shipments into the Canadian provinces of Quebec and Saskatchewan, partially offset by increased sales across the majority of the domestic casino markets and the Canadian province of Manitoba.

The growth in domestic replacement units for the current nine month period was driven by:

continued implementation of our *EZ Pay* TITO technology

our extensive game theme library spanning spinning reel, video reel and video poker product lines

large shipments in Nevada, Atlantic City and eastern region casino, including 13,300 units to multiple Harrah's properties under existing purchase agreements

partially offset by fewer units shipped into the Canadian provinces of Quebec and Saskatchewan

Given the strength of domestic replacement sales thus far in fiscal 2004, we expect to conclude the year with a record 70,000 to 75,000 replacement units shipped, up from our previous target of 65,000 to 70,000.

With an estimated 250,000 machines currently in the market not capable of supporting TITO technology, we expect domestic replacement demand to remain strong for the next few years. However, we expect that the record pace experienced in the current fiscal year will slow down, due in large part to the fact that our largest casino customers have already converted approximately 60% of their slot floors, on average, to cashless gaming machines. Additionally, most Canadian provinces, except Manitoba, have now fulfilled their replacement programs.

Table of Contents**International Product Sales**

(In millions, except units and ARUS)	Quarters Ended June 30,		Increase %	%	Nine Months Ended June 30,		Increase %	%
	2004	2003			(Decrease)	Change		
Revenues	\$ 72.5	\$ 57.5	\$ 15.0	26%	\$ 252.8	\$ 168.6	\$ 84.2	50%
Gross profit	35.2	23.8	11.4	48%	116.5	72.0	44.5	62%
Gross margin	49%	41%	8%	17%	46%	43%	3%	8%
Units shipped	12,600	13,400	(800)	(6%)	54,300	38,800	15,500	40%
Replacement	10,800	12,300	(1,500)	(12%)	48,300	34,800	13,500	39%
New/Expansion	1,800	1,100	700	64%	6,000	4,000	2,000	50%
ARUS	\$ 5,700	\$ 4,300	\$ 1,400	34%	\$ 4,700	\$ 4,300	\$ 400	7%

Current quarter international product sales revenues improved over the prior year quarter despite fewer units shipped. Revenues, ARUS, gross profit and margins increased in the current year quarter and nine months compared to the prior year periods primarily due to:

favorable foreign exchange rates

greater mix of higher margin sales in Europe

higher software conversion and parts sales in Australia

lesser mix of lower margin Japanese pachisuro units in the current quarter

International machine shipments for the nine months of 2004 grew substantially due to:

strong replacement shipments in Japan, primarily related to the success of *Nobunaga*, our highest selling pachisuro game ever at 18,000 units fiscal 2004

increased sales in Latin America and the European casino markets

partially offset by fewer shipments in the UK and Australia

We expect decreased international machine shipments for the remainder of fiscal 2004, primarily related to lower machine sales in Japan. We are anticipating game introductions on new platforms in fiscal 2005 as a result of our recently announced partnership with the Sammy Corporation, a manufacturer in the pachisuro market. We also foresee international gaming expansion, including opportunities in the UK, the Asia Pacific regions (including Macau) and Eastern Europe (including Russia).

Table of Contents**Proprietary Gaming**

(In millions, except units)	Quarters Ended June 30,		Increase (Decrease)	%	Nine Months Ended June 30,		Increase (Decrease)	%
	2004	2003			2004	2003		
Revenues	\$ 303.3	\$ 261.9	\$ 41.5	16%	\$ 854.6	\$ 784.8	\$ 69.8	9%
Gross profit	166.5	135.5	30.9	23%	468.6	415.0	53.6	13%
Gross margin	55%	52%	3%	6%	55%	53%	2%	4%
Operating expenses	\$ 51.7	\$ 43.5	\$ 8.3	19%	\$ 147.7	\$ 134.5	\$ 13.1	10%
Operating income	114.7	91.8	23.0	25%	320.9	280.1	40.8	15%
Segment profit	116.8	93.4	23.4	25%	322.9	283.4	39.6	14%
Segment profit margin	39%	36%	3%	8%	38%	36%	2%	5%
Installed base units	36,400	33,600	2,800	8%	36,400	33,600	2,800	8%

Proprietary gaming revenues and gross margins increased for the current quarter and first nine months of fiscal 2004 as a result of:

growth in our installed base

improved mix and increased play levels on WAP games across the majority of the domestic gaming markets, resulting from new game introductions and a more favorable jurisdictional mix

favorable interest rate movements

The growth in our installed base of proprietary games in the casino market was primarily due to placements across the various Class III Native American markets, up 1,000 units over the prior year period. Casino units also increased in Canada, offset by declines in Nevada and other regional jurisdictions. Racino units increased by 1,800 machines due to additional placements in New York related to the commencement of video lottery operations at four racetracks. Placements also increased in Rhode Island and Delaware as a result of strong game performance.

While the growth of our installed base is dependent on growth in the gaming industry, we also continue to focus on strategies to improve revenue yields centered on managing the types of games and jurisdictions where they are placed. Our installed base of higher yielding WAP games increased 1,300 machines compared to the prior year.

As a result of adopting FIN 46, our current quarter also included the consolidation of revenues and expenses from the activities of the progressive systems trust VIEs in Iowa and New Jersey. The VIE consolidation increased current quarter revenues and expenses by \$11.2 million and reduced gross margins by approximately 2%. The VIE consolidation had no material impact on gross profit dollars or net income.

Additionally, the extra week in the first quarter of fiscal 2004 contributed approximately \$19.9 million in revenues and \$11.1 million in gross profit.

We expect our consolidated proprietary gaming gross margins to fluctuate between 53% and 55% for the remainder of fiscal 2004 depending on the jurisdictional mix and types of games placed, as well as movements in interest rates.

Table of Contents**LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION**

Our principal source of liquidity is cash generated from our operating activities allowing us to reinvest in our business. Our sources of capital also include, but are not limited to, the issuance of public or private placement debt, bank borrowings under our credit facility and the issuance of equity securities.

We expect that our available capital resources will be sufficient to fund our capital expenditures and operating capital requirements, scheduled debt and dividend payments, interest payments and income tax obligations.

Our working capital remained unchanged at \$1.1 billion at the end of the current quarter from September 30, 2003. Our working capital statistics for the trailing twelve months ended June 30, 2004 compared to the prior year period included:

average days sales outstanding improved to 79 days from 106 days, primarily due to significant note and contract payoffs in the current period

inventory turns remained constant at 3.7

Cash Flows Summary

	Nine Months Ended June 30,		Increase (Decrease)
	2004	2003	
(In millions)			
Operations	\$ 400.5	\$235.4	\$ 165.0
Investing	5.6	69.2	(63.6)
Financing	(533.0)	415.5	(948.5)
Effect of exchange rates	3.0	(3.0)	6.0
	<hr/>	<hr/>	<hr/>
Net increase (decrease) in cash and equivalents	\$(124.0)	\$717.1	\$(841.1)
	<hr/>	<hr/>	<hr/>

Cash Flows From Operations

Cash generated from operations in the current nine month period improved over the prior year period primarily as a result of:

improvements in income from operations

timing of receivables collections, including several customer payoffs of contract financing

partially offset by cash used to extend our relationship with Sony Pictures Television Inc. for exclusive rights to some of Sony's leading licensed properties through calendar year 2014

payment timing in accounts payable and accrued liabilities

Cash Flows From Investing and Financing

Investing

Net cash from investing activities decreased over the comparable prior year period primarily related to:

net cash used to acquire Acres of \$109.7 million

additional capital expenditures

offset by the consolidation of \$47.5 million in VIEs cash

receipt of \$46.4 million during the current nine month period on the Pala note acquired with Anchor

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Table of Contents*Capital Expenditures*

	Nine Months Ended June 30,		Increase (Decrease)
	2004	2003	
(In millions)			
Investment in property, plant and equipment	\$ 24.4	\$ 23.3	\$ 1.1
Investment in gaming operations equipment	94.2	70.7	23.5
Investment in intellectual property	22.7	7.2	15.6
	<hr/>	<hr/>	<hr/>
Total capital expenditures	\$141.3	\$101.1	\$ 40.2
	<hr/>	<hr/>	<hr/>
Domestic	97%	97%	
International	3%	3%	

Our investment in gaming operations equipment increased in the current nine months due to growth in our installed base and leased units, primarily in various Class III Native American markets, as well as growing markets in Florida, New York, Delaware and Alabama. The recent introduction of our Advanced Video Platform (AVP), specifically *Wheel Of Fortune® Special Edition*, also contributed to additional costs in gaming operations equipment.

Our investment in intellectual property increased over the prior year period, primarily due to additional purchased patents related to our ongoing commitment to the development of innovative games, platforms and systems.

Additionally, we plan to invest approximately \$113.0 million in land and buildings over the next two to four years, primarily to consolidate operations currently conducted in several leased facilities in Las Vegas and to expand our Reno facility.

Financing

Net cash used for financing activities in the first nine months of fiscal 2004 increased over the prior year period primarily as a result of:

proceeds from the issuance of zero-coupon convertible debentures in the prior year period

the early redemption in February 2004 of our \$400.0 million senior notes due in May 2004

payments of dividends

partially offset by reduced share repurchases in the current year period

Net Cash Flows to Fund Jackpot Liabilities

	Nine Months Ended June 30,		Increase
	<hr/>	<hr/>	

(In millions)	2004	2003	(Decrease)
Purchases of investments to fund jackpots	\$ (24.5)	\$ (19.0)	\$ (5.5)
Proceeds from investments to fund jackpots	35.8	28.3	7.6
Investing activities	11.3	9.3	2.0
Collections to fund jackpot liabilities	204.9	197.0	7.9
Payments to jackpot winners	(234.4)	(223.1)	(11.4)
Financing activities	(29.5)	(26.1)	(3.4)
Net cash flows to fund jackpot liabilities	\$ (18.2)	\$ (16.8)	\$ (1.4)

Investments to fund jackpots relate only to installment-based payments to winners. Purchases of these investments occur for the present value of a jackpot when the player wins and elects installment-based payments. Proceeds occur as the investments mature, in equal annual installments over 20 to 26 years.

Jackpot liabilities relate to all progressive jackpot systems, irrespective of which payment method the winner elects. Payments to winners include both installment-based payments and single-payments.

Net cash flows from these activities, collectively, represent timing differences between the growth in liabilities for progressive jackpots and the actual payments to the winners during the period. Fluctuations in net cash flows to fund jackpot liabilities occur based on the timing of the jackpot cycles and the volume of play across all of our progressive systems games. Cash collected from casino participants in excess of funds required to fund jackpot liabilities is reflected in operating cash flows and the balance is reflected in financing activities.

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Stock Repurchase Plan

Our Board of Directors authorized IGT's common stock repurchase plan in 1990. Our remaining share repurchase authorization, as amended, totaled 39.2 million shares as of June 30, 2004. During the first nine months of fiscal 2004, we repurchased 672,799 shares for an aggregate price of \$24.2 million. Since the end of the current period through August 11, 2004, we repurchased 3.0 million additional shares for an aggregate price of \$93.5 million. See Item 2 Part II for additional information concerning these stock repurchases.

Credit Facilities and Indebtedness

Senior Credit Facility

IGT entered into a new \$1.5 billion senior credit facility (credit facility) with a syndicate of banks on July 1, 2004, replacing the previous credit facility of \$260.0 million. The credit facility is structured in two components both with five year maturities:

a \$1.3 billion revolver, of which \$3.8 million was reserved for letters of credit at the end of the current quarter

a \$200.0 million term loan, funded on July 15, 2004 in conjunction with the early redemption of our 2009 senior notes

The interest rates applicable to the credit facility are based on our public credit ratings and debt to capitalization ratio. Initially these rates were set at LIBOR plus 60.0 basis points (bps) for both the revolver and the term loan. A facility fee of 15.0 bps applies to the entire credit facility.

Financial covenants for the credit facility include a maximum leverage ratio (as defined in the agreement) of 4:1 and a minimum interest coverage ratio (as defined in the agreement) of 3:1. The credit facility agreement also includes certain restrictions on our ability to incur new indebtedness, issue guarantees, or make acquisitions.

If IGT is not in compliance with the required covenant ratios, an event of default would occur, which if not cured, could cause the entire outstanding borrowings under the credit facility to become immediately due and payable, as well as trigger cross default provisions to other debt issues.

Foreign Credit Facilities

Our available foreign revolving credit facilities totaled \$24.0 million at June 30, 2004 and expire at various times through July 2005.

Senior Notes

On July 16, 2004, we redeemed all of the remaining \$569.6 million principal outstanding 2009 senior notes, using available cash and the proceeds of the new \$200.0 million term loan. The portion of the senior notes not refinanced with the new term loan totaled \$366.3 million, net of discount, and was classified as current maturities of long-term debt at June 30, 2004. Including the cancellation of corresponding interest rate swaps, we will recognize a loss of approximately \$121.0 million or \$76.9 million, net of tax, on this early debt retirement in our fourth quarter ending September 30, 2004.

In February 2004, we recognized a loss of \$6.9 million or \$4.3 million, net of tax, related to the early redemption of our \$400.0 million senior notes due May 2004. Losses on early redemptions of debt were included in other expense.

Debt Covenants

We continue to be in full compliance with all covenants contained in all debt agreements at June 30, 2004.

Table of Contents**FINANCIAL POSITION**

(In millions)	June 30, 2004	September 30, 2003	Increase (Decrease)
Total assets	\$4,304.2	\$4,185.2	\$ 119.0
Total liabilities	2,219.9	2,497.8	(277.8)
Total stockholders' equity	2,084.3	1,687.5	396.8

Total assets increased during the nine months just ended mainly due to:

the acquisition of Acres

the consolidation of the VIEs

partially offset by early redemption of debt

Total liabilities decreased during the current period primarily related to:

the early redemption of debt

payments timing of accrued liabilities

offset partially by increases from consolidation of the VIEs

Total stockholders' equity increased during the current year period predominantly as the result of:

net income generated during the current period

proceeds from employee stock plans

partially offset by dividends and share repurchases

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance sheet risk such as performance bonds and other guarantees, which are not reflected in our balance sheet. We do not expect any material losses to result from these off-balance sheet arrangements and we are not dependent on off-balance sheet financing arrangements to fund our operations. See Note 13 of our Unaudited Condensed Consolidated Financial Statements.

Contractual Obligations

Significant changes to our contractual obligations since our last Annual Report of Form 10-K include the issuance of our new \$1.5 billion senior credit facility, including the funding of a \$200.0 million term loan due in 2009, and the early redemption of our 2009 Senior Notes in July 2004. See Note 9 of our Unaudited Condensed Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements were prepared in conformity with accounting principles generally accepted in the US. Accordingly, we are required to make estimates, judgments and assumptions that we believe are reasonable

based on our historical experience, contract terms, observance of known trends in our company and the industry as a whole, and information available from other outside sources. Our estimates affect reported amounts and related disclosures. Actual results may differ from initial estimates.

Critical accounting policies require IGT's management to make material subjective or complex judgments about matters that are highly uncertain or variable related to estimates and assumptions used for our jackpot liabilities and expenses, intangible assets and goodwill, income taxes, bad debt expense and inventory. These areas of our accounting estimates are the most sensitive to change from external factors.

For a discussion of our critical accounting policies and estimates, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations presented in our Annual Report on Form 10-K for the year ended September 30, 2003. We have made no significant changes to our accounting policies or estimates since September 30, 2003.

RECENTLY ISSUED ACCOUNTING STANDARDS

IGT keeps abreast of new generally accepted accounting principles and disclosure reporting requirements issued by the Financial Accounting Standards Board, Securities and Exchange Commission (SEC) and other standard setting agencies. Recently issued accounting standards affecting our financial results are described in Note 1 of our Unaudited Condensed Consolidated Financial Statements.

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FORWARD LOOKING STATEMENTS AND RISK FACTORS

Risk Factors and Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

Throughout this Quarterly Report on Form 10-Q we make some forward looking statements, which 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 also relate to our future prospects and proposed new products, services, developments or business strategies. These statements are identified by their use of terms and phrases such as anticipate, believe, could, would, estimate, expect, intend, may, plan, predict, project, pursue, will, continue, feel, or the negative or other variations thereof, and other similar terms and phrases, including references to assumptions, and include but are not limited to the following:

estimates of expected gross profit margins and continued growth in ARUSs

estimates and assumptions related to our critical accounting policies

expectations that our cashless technology will continue to stimulate replacement demand

estimates that the replacement market will continue at a certain pace

expectations about our ability to introduce new games

expectations that our available capital resources will be sufficient to fund our financial commitments

estimates of the amount we plan to invest in our Las Vegas and Reno facilities

estimates of our expected interest savings related to the early redemption of our Senior Notes

estimates of the effect to fourth quarter diluted EPS related to the satisfaction of the conversion criteria on our debentures

expectations about the timing of the remaining units to be shipped

expectations about our future international machine shipments

estimates about our expected tax rates

Although we believe that the expectations reflected in any of our forward looking statements are reasonable, actual results could differ materially from those expressed or implied. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. We do not intend, and undertake no obligation, to update our forward looking statements to reflect future events or circumstances.

We urge you to carefully review the following discussion of the specific risks and uncertainties that affect our business. These include, but are not limited to, the following:

Our success in the gaming industry depends in large part on our ability to develop innovative products and systems. Our revenues would be adversely affected by:

a decline in the popularity of our gaming products with players

a lack of success in developing new products

an inability to roll out new games on schedule

an increase in the popularity of competitors' games

a negative change in the trend of consumer acceptance of our newest systems innovations including TITO technology

Demand for our products and placement of our proprietary games, and thereby our revenues, would be adversely affected by:

a reduction in the growth rate of new and existing markets

delays of scheduled openings of newly constructed or planned casinos

reduced levels of gaming play on our gaming systems or weakened customer demand for our gaming machines as a result of declines in travel activity, jackpot fatigue, or customer capital expenditures

a decrease in the desire of established gaming properties to upgrade machines, resulting in a decline in the demand for replacement machines

a decline in public acceptance of gaming

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We operate in a highly regulated industry. Our ability to operate and generate revenues in certain jurisdictions could be adversely affected by:

unfavorable public referendums or anti-gaming legislation

unfavorable legislation affecting or directed at manufacturers or gaming operators, such as referendums to increase taxes on gaming revenues

adverse changes in or findings of non-compliance with applicable governmental gaming regulations

delays in approvals from regulatory agencies

a limitation, conditioning, suspension or revocation of any of our gaming licenses

unfavorable determinations or challenges of suitability by gaming regulatory authorities with respect to our officers, directors or key employees

Our intellectual property rights are subject to risks that could adversely affect operating income, including:

potential inability to obtain and maintain patents, trademarks and copyrights to protect our newly developed games and technology

competitors' infringement upon our existing trademarks, patents and copyrights

approval of competitors' patent applications that may restrict our ability to compete effectively

Our business is vulnerable to changing economic conditions that could adversely affect operating income, including:

unfavorable changes in economic conditions including those that affect the relative health of the gaming industry

unfavorable changes in state taxation laws or application of such laws that could reduce our profitability

political or economic instability in international markets

changes in interest rates causing a reduction of investment income or in the value of market rate sensitive instruments

fluctuations in foreign exchange rates, tariffs and other trade barriers

an inability to effectively hedge our foreign currency exposures

Our outstanding debt obligations subject us to certain additional risks that could adversely affect our cash flows and interest costs, including:

increasing our vulnerability to general adverse economic and industry conditions

limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and other general corporate requirements

requiring a substantial portion of our cash flows from operations for the payment of interest on our indebtedness and reducing our ability to use our cash flows to fund working capital, capital expenditures, acquisitions, and general corporate requirements

limiting our flexibility in planning for, or reacting to, changes in our business and the industry

disadvantaging us compared to competitors with less indebtedness

Our business operations are subject to other risks that could adversely affect our operating income and cash flows, including:

the loss or retirement of our key executives or other key employees

adverse changes in the creditworthiness of parties with whom we have receivables or forward currency exchange contracts

the discovery of facts with respect to legal actions pending against IGT not presently known to us or determinations by judges, juries or other finders of fact which do not accord with our evaluation of the possible liability or outcome of existing litigation

our ability to timely and cost effectively integrate into our operations the companies that we acquire

increased costs due to reliance on third party suppliers and contract manufacturers

agreements with casinos in Native American jurisdictions which may subject us to sovereign immunity risk

acts of war or terrorist incidents

our continued work through several implementation phases of our company-wide ERP solution for our computer system procedures and controls; any failures, difficulties or significant delays in implementing or maintaining our computer information systems could result in material adverse consequences to our business, including disruption of operations, loss of information and unanticipated increases in costs

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We use derivative financial instruments to minimize our market risk exposure resulting from fluctuations in foreign exchange rates and interest rates. The primary business objective of our hedging program, as defined in our corporate risk management policy, is to minimize the impact of transaction, remeasurement, and specified economic exposures to our net income and earnings per share. The counter parties to these instruments are major commercial banks and we believe that losses related to credit risk are remote. We are not party to leveraged derivatives and do not hold or issue financial instruments for speculative purposes.

Foreign Currency Risk

We routinely use forward exchange contracts to hedge our net exposures, by currency, related to the nonfunctional currency monetary assets and liabilities of our operations. In addition, from time to time, we may enter into forward exchange contracts to establish with certainty the US dollar amount of future firm commitments denominated in a foreign currency.

Hedging

At June 30, 2004, our net foreign currency exposure of \$36.4 million related to our monetary assets and liabilities denominated in nonfunctional currency was hedged with \$20.5 million in forward currency contracts. At September 30, 2003, our net foreign currency exposure of \$39.7 million related to our monetary assets and liabilities denominated in nonfunctional currency was hedged with \$28.1 million in forward contracts.

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

Translation

As currency rates change, translation of our foreign currency functional businesses into US dollars affects year-over-year comparability of equity. We do not generally hedge translation risks because cash flows from our international operations are generally reinvested locally. Changes in the currency exchange rates that would have the largest impact on translating our international net assets included the Australian dollar, the British pound, the Japanese yen and the Euro. We estimate that a 10% change in foreign exchange rates would have impacted reported equity by approximately \$1.2 million at June 30, 2004 versus \$2.2 million at September 30, 2003. This sensitivity analysis disregards the possibility that rates can move in opposite directions and that gains from one area may or may not be offset by losses from another area.

Interest Rate Risk

We estimate interest rate risk as the potential change in the fair value of our debt or earnings resulting from a hypothetical 10% adverse change in interest rates.

Costs to fund jackpot liabilities

Fluctuations in prime, treasury and agency rates due to changes in market and other economic conditions directly impact our costs to fund jackpots, and therefore our gross profit in proprietary gaming. If interest rates decline, our costs increase, and correspondingly our gross profit declines. We estimate that a hypothetical 10% decline in interest

rates would have reduced our gross profit by \$10.7 million in the first nine months of fiscal 2004 and \$10.9 million in the comparable prior year period. We do not currently manage this exposure with derivative financial instruments.

Senior Notes and Related Swaps

We use various techniques to mitigate the risk associated with future changes in interest rates, including interest rate swaps. In the fourth quarter of 2003, we entered into four interest rate swap agreements with a combined notional amount of \$350.0 million, primarily to diversify a portion of our debt portfolio between fixed and variable rate instruments. These swaps were cancelled on July 9, 2004 in conjunction with the early redemption of our remaining \$569.6 million principal outstanding 2009 senior notes. See Note 9 of our Condensed Consolidated Financial Statements.

Convertible Debentures Price Risk

The fair value of our debentures is sensitive to changes in both our stock price and interest rates. Assuming interest rates are held constant, we estimate a 10% decrease in our stock price would decrease the fair value of our convertible debentures by \$63.7 million. Assuming our stock price is held constant, we estimate a 10% increase in interest rates would decrease the fair value of our convertible debentures by \$0.7 million.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and the Chief Financial Officer concluded that IGT's disclosure controls and procedures are effective.

No change in our internal control over financial reporting occurred during the quarter just ended that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Changes in Internal Controls

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. There have not been any other changes in our internal controls or in other factors that materially affected, or are reasonably likely to materially affect these controls as of the end of the period covered by this report. There were no significant deficiencies or material weaknesses, and therefore no corrective actions were taken.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

For a description of our legal proceedings, see Note 13 of Notes to Unaudited Condensed Consolidated Financial Statements, which is incorporated by reference in response to this item.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Under the 1990 IGT common stock repurchase plan, as amended and adjusted for stock splits, our Board of Directors has authorized total repurchases of up to 386 million shares from the open market or in privately negotiated transactions, depending on market conditions and other factors. There is no expiration date specified for this plan. Our current quarter repurchases are summarized below. Since the end of the current period through August 11, 2004, we repurchased 3.0 million additional common shares at \$31.22 average price per share.

Fiscal Periods	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares Still Available for Purchase Under the Plan
April 4 - May 1, 2004				39,910,677
May 2 - May 29, 2004	400,000	\$36.79	400,000	39,510,677
May 30 - June 3, 2004	270,000	35.00	270,000	39,240,677
	<u>670,000</u>	<u>35.86</u>	<u>670,000</u>	39,240,677
Total	<u>670,000</u>	<u>\$35.86</u>	<u>670,000</u>	39,240,677

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

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EXHIBIT INDEX

(a) Exhibits

- 10.01 Credit agreement by and among International Game Technology, Wells Fargo Bank, N.A., Bank of America, N.A. and other banks dated July 1, 2004.
- 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.

(b) Reports on Form 8-K

We filed a current report on Form 8-K on June 16, 2004 announcing the redemption of our outstanding 8.375% Senior Notes due May 2009.

We filed a current report on Form 8-K on April 22, 2004 furnishing a press release announcing earnings for the second quarter ended March 31, 2004.

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

Date: August 11, 2004

INTERNATIONAL GAME TECHNOLOGY

By: /s/ Maureen Mullarkey

Maureen T. Mullarkey
Executive Vice President,
Chief Financial Officer and
Treasurer

(Duly authorized officer and
principal financial officer
of the registrant)

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