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INTERNATIONAL GAME TECHNOLOGY

Form 10-Q/A

August 03, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

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

For the quarterly period ended: December 30, 2000

OR

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

For the transition period from _____ to _____

Commission File Number 001-10684

INTERNATIONAL GAME TECHNOLOGY

(Exact name of registrant as specified in charter)

Nevada
(State of Incorporation)

88-0173041
(IRS Employer Identification No.)

9295 Prototype Drive, Reno, Nevada 89511
(Address of principal executive offices)

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

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

Yes ☒ No ☐
- -----

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

Class -----	Outstanding at January 27, 2001 -----
Common Stock par value \$.000625 per share	73,345,311

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Part I - Financial Information

Item 1. Financial Statements

General

The following unaudited condensed consolidated financial statements were prepared by International Game Technology (referred throughout this document, together with its consolidated subsidiaries where appropriate, as IGT, Company, we, our, and us) and include all normal adjustments considered necessary to present fairly the financial position for the interim periods. These adjustments are of a normal recurring nature. These financial statements and notes are presented as permitted by the instructions to Form 10-Q and therefore do not contain certain information included in our audited consolidated financial statements and notes for the year ended September 30, 2000. Operating results for current periods do not necessarily indicate the results that may be expected for the fiscal year ending September 29, 2001.

You should read these financial statements along with the financial statements, accounting policies and notes included in our Annual Report on Amended Form 10-K/A for the fiscal year ended September 30, 2000. We believe that the disclosures in this document are adequate to make the information presented not misleading. Certain amounts in the unaudited condensed consolidated financial statements presented for the prior year comparable period have been reclassified to be consistent with the presentation used in the current fiscal period. In this report and in each of our reports, as amended, beginning with our Report on Form 10-K for the year ended September 30, 2000, we have reclassified our presentation of earnings from unconsolidated joint venture operations. We previously reported earnings from unconsolidated joint ventures, net of expenses, as a component of gaming operations revenues. In each of our reports as amended, beginning with our Report on Form 10-K for the year ended September 30, 2000 and going forward, we will report the net results of our unconsolidated joint ventures as a separate component of operating income on our

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income statement under a separate caption titled Earnings of Unconsolidated Affiliates. This reclassification has no impact on our operating income, net income, or earnings per share as reflected on our consolidated statements of income and no impact on our consolidated balance sheets and statement of cash flows.

The following are trademarks, service marks, and/or federally registered trademarks of International Game Technology or its wholly-owned subsidiaries: After Shock, All for One, Big Brother, Diamond Cinema, Dollars Deluxe, Double Diamond 2000, Dynamite, EZ Pay, Fabulous 50's, Five Play Draw Poker, Game King, High Rollers, IGT Gaming System, IGS, iGame, iGame Plus, Integrated Voucher System, IVS, King Kebab, Little Green Men, Megabucks, MegaJackpots, Monedin Joker, Multi-Denomination, Multi-Hand Poker, Neon Nights, Nickelmania, Nickels, Nickels Deluxe, Party Time, Pokermania, Popper King, Psycho Cash Beast Club, Quartermania, Quarters Deluxe, S2000, Revolution, S-Plus, Security Accounting Management System, SAMS, Slotopoly, Super Nickelmania, Super Vision, Texas Tea, Triple Play Draw Poker, Triple Play Poker, and Vision Series.

IGT designs, manufactures, produces, operates, uses, and/or otherwise has permission to exploit certain gaming machines utilizing materials under license from third-party licensors. More specifically, the games which have been mentioned in this filing and their related trademark and copyright ownership information are: "The Addams Family" is developed under agreement with Monaco Entertainment Corporation; "Elvis, Elvis Presley, and King of Rock 'n' Roll" are registered trademarks of Elvis Presley Enterprises, Inc.; "Jeopardy!"(R) is a registered trademark of Jeopardy Productions, Inc.; "Wheel of Fortune"(R) is a registered trademark of Califon Productions, Inc.; "Regis' Cash Club" is a game developed in conjunction with Philbin Enterprises; "\$1,000,000 Pyramid "(TM) is a trademark of CPT Holdings, Inc.; "I Dream of Jeannie" (TM) is a trademark of CPT Holdings, Inc.; "The Three Stooges"(R), the characters, names and all related indicia are trademarks of C3 Entertainment, Inc.; " The Honeymooners"(TM) is a trademark used under license; "Let's Make A Deal"(R) is a trademark of Let's Make a Deal, is registered in the US and is pending elsewhere, and is used under license; "Beverly Hillbillies" (TM) is a trademark of CBS Worldwide Inc.; "Lifestyles of the Rich and Famous"(TM) is a trademark of Rysher Entertainment, Inc.; "The Munsters" is a trademark of Universal Studios, licensed by

Item 1. Financial Statements

Universal Studios Licensing, Inc.; "American Bandstand"(R)is a trademark of Dick Clark Productions, Inc.; "Wheel of Gold" and "Totem Pole" are federally registered trademarks of Anchor Gaming.

Condensed Consolidated Statements of Income

Three Months Ended	
December 30,	January 1,
2000	2000

(Amounts in thousands, except per share amounts)	

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Revenues		
Product sales	\$ 192,350	\$ 109,760
Gaming operations	78,079	75,891
	-----	-----
Total revenues	270,429	185,651
	-----	-----
Costs and Expenses		
Cost of product sales	115,203	68,200
Cost of gaming operations	34,055	33,311
Selling, general and administrative	39,598	32,968
Depreciation and amortization	4,869	5,396
Research and development	14,086	13,388
Provision for bad debts	5,752	1,839
Impairment of assets and restructuring	(500)	1,779
	-----	-----
Total costs and expenses	213,063	156,881
	-----	-----
Earnings of Unconsolidated Affiliates	31,302	20,866
	-----	-----
Income from Operations	88,668	49,636
	-----	-----
Other Income (Expense)		
Interest income	12,345	14,104
Interest expense	(25,105)	(25,293)
Gain (loss) on the sale of assets	109	(10)
Other	477	27,819
	-----	-----
Other income (expense), net	(12,174)	16,620
	-----	-----
Income Before Income Taxes	76,494	66,256
Provision for Income Taxes	28,303	23,852
	-----	-----
Net Income	\$ 48,191	\$ 42,404
	=====	=====
Basic Earnings Per Share	\$ 0.66	\$ 0.49
	=====	=====
Diluted Earnings Per Share	\$ 0.64	\$ 0.49
	=====	=====
Weighted Average Common Shares Outstanding	72,761	86,401
Weighted Average Common and Potential Shares Outstanding	75,596	87,180

The accompanying notes are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Balance Sheets

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	December 30, 2000	September 30, 2000

(Dollars in thousands)		
Assets		
Current assets		
Cash and cash equivalents	\$ 219,302	\$ 244,907
Investment securities, at market value	23,666	21,473
Accounts receivable, net of allowances for doubtful accounts of \$16,217 and \$13,831	242,756	219,948
Current maturities of long-term notes and contracts receivable, net of allowances	67,496	76,320
Inventories, net of allowances for obsolescence of \$30,729 and \$24,304:		
Raw materials	98,656	98,081
Work-in-process	5,085	4,593
Finished goods	63,427	44,315
	-----	-----
Total inventories	167,168	146,989
	-----	-----
Investments to fund liabilities to jackpot winners	28,161	27,939
Deferred income taxes	29,877	29,086
Prepaid expenses and other	57,726	47,564
	-----	-----
Total Current Assets	836,152	814,226
	-----	-----
Long-term notes and contracts receivable, net of allowances and current maturities	86,491	76,888
Property, plant and equipment, at cost		
Land	19,903	19,889
Buildings	75,990	75,891
Gaming operations equipment	98,456	87,918
Manufacturing machinery and equipment	124,351	121,512
Leasehold improvements	5,040	4,996
	-----	-----
Total	323,740	310,206
Less accumulated depreciation and amortization	(150,887)	(143,297)
	-----	-----
Property, plant and equipment, net	172,853	166,909
	-----	-----
Investments to fund liabilities to jackpot winners	231,082	229,726
Deferred income taxes	97,864	97,670
Intangible assets, net	143,153	143,738
Other assets	92,558	94,559
	-----	-----
Total Assets	\$ 1,660,153	\$ 1,623,716
	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

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	December 30, 2000	September 30, 2000

(Dollars in thousands)		
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term notes payable	\$ -	\$ 4,621
Accounts payable	71,637	76,387
Jackpot liabilities	69,456	55,942
Accrued employee benefit plan liabilities	12,705	31,425
Accrued interest	10,875	31,369
Other accrued liabilities	70,747	59,249
	-----	-----
Total Current Liabilities	235,420	258,993
Long-term notes payable, net of current maturities	991,790	991,507
Long-term jackpot liabilities	259,424	267,985
Other liabilities	8,596	8,646
	-----	-----
Total Liabilities	1,495,230	1,527,131
	-----	-----
Commitments and contingencies	-	-
Stockholders' equity		
Common stock: \$.000625 par value; 320,000,000 shares authorized; 154,395,446 and 153,739,686 shares issued	96	96
Additional paid-in capital	296,176	278,825
Retained earnings	1,091,375	1,043,184
Treasury stock: 81,170,767 shares, at cost	(1,215,707)	(1,215,707)
Accumulated other comprehensive loss	(7,017)	(9,813)
	-----	-----
Total Stockholders' Equity	164,923	96,585
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 1,660,153	\$ 1,623,716
	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

	Three Months E

	December 30, 2000

(Dollars in thousands)	
Cash Flows from Operating Activities	
Net income	\$ 48,191
	\$

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Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,573	
Amortization of discounts and deferred offering costs	646	
Provision for bad debts	5,752	
Provision for inventory obsolescence	6,966	
Gain (loss) on the sale of assets	(109)	
Common stock awards	132	
(Increase) decrease in assets:		
Receivables	(24,041)	
Inventories	(40,817)	
Prepaid expenses and other	(12,539)	
Other assets	(2,048)	
Net accrued and deferred income taxes, net of tax benefit of employee stock plans	10,835	
Decrease in accounts payable and accrued liabilities	(39,341)	
Impairment (recoveries) of assets and restructuring charges	(500)	
Earnings of unconsolidated affiliates (in excess of) less than distributions	3,548	
Other	-	
Total adjustments	(77,943)	
Net cash provided by (used in) operating activities	(29,752)	

The accompanying notes are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended	
	December 30, 2000	Janu 2
(Dollars in thousands)		
Cash Flows from Investing Activities		
Investment in property, plant and equipment	(4,470)	(2
Proceeds from sale of property, plant and equipment	238	
Purchase of investment securities	-	
Proceeds from sale of investment securities	812	
Proceeds from investments to fund liabilities to jackpot winners	5,594	5
Purchase of investments to fund liabilities to jackpot winners	(7,172)	(4
Cash advanced on loans receivable	(10,068)	(18
Cash received on loans receivable	6,006	
Proceeds from sale of other assets	-	41
Investment in unconsolidated affiliates	-	
Net cash provided by (used in) investing activities	(9,060)	22

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Cash Flows from Financing Activities		
Principal payments on debt	(4,549)	(2)
Proceeds from long-term debt	-	
Payments on jackpot liabilities	(13,582)	(14)
Collections from systems to fund jackpot liabilities	20,799	22
Proceeds from employee stock plans	11,069	
Purchases of treasury stock	-	(26)
Net cash provided by (used in) financing activities	13,737	(19)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(530)	
Net Increase (Decrease) in Cash and Cash Equivalents	(25,605)	36,
Cash and Cash Equivalents at:		
Beginning of Period	244,907	426
End of Period	\$ 219,302	\$ 463

The accompanying notes are an integral part of these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

1. Notes and Contracts Receivable

The following allowances for doubtful notes and contracts were netted against current and long-term maturities:

	December 30, 2000	September 30, 2000
(Dollars in thousands)		
Current	\$16,018	\$14,607
Long-term	4,500	3,426
	-----	-----
	\$20,518	\$18,033
	=====	=====

2. Concentrations of Credit Risk

The financial instruments that potentially subject IGT to concentrations of credit risk consist principally of cash and cash equivalents and accounts, contracts, and notes receivable. IGT maintains cash and cash equivalents with various financial institutions in amounts which, at times, may be in excess of the FDIC insurance limits.

Product sales and the resulting receivables are concentrated in specific legalized gaming regions. We also distribute a portion of our products through third party distributors resulting in significant distributor receivables. Accounts, contracts, and notes receivable by region as a percentage of total receivables at December 30, 2000 were as follows:

Domestic Region

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Native American casinos	33%
Nevada	30%
Atlantic City (distributor and other)	6%
Riverboats (greater Mississippi River area)	4%
Other US regions (individually less than 3%)	5%

Total domestic	78%

International Region	
Europe	7%
Australia	7%
Latin America	4%
Other international (individually less than 3%)	4%

Total international	22%

Total	100%
	=====

Notes to Condensed Consolidated Financial Statements

3 Intangible Assets

Intangible assets consisted of the following:

	December 30, 2000	September 30, 2000

(Dollars in thousands)		
Intellectual property	\$ 1,650	\$ 1,650
Excess of cost over net assets acquired	149,087	148,631
	-----	-----
	150,737	150,281
Less accumulated amortization	(7,584)	(6,543)
	-----	-----
	\$ 143,153	\$ 143,738
	=====	=====

4. Impairment of Assets and Restructuring Costs

IGT -Australia

In the fourth quarter of fiscal 1999, given the unfavorable operating results, poor product performance, loss of customer confidence and market share, personnel turnover and changes in the regulatory environment in Australia, we determined it necessary to re-evaluate the recoverability of the identifiable intangible assets and goodwill recorded in connection with IGT-Australia's March 1998 acquisition of Olympic Amusements Pty. Ltd. As a result of our review, we determined that the total unamortized balance of the identifiable intangible assets and goodwill was impaired and recorded a charge of \$86.8 million. In an effort to return IGT-Australia to a profitable operation, we also developed a restructuring plan. In connection with the plan, in the fourth quarter of fiscal 1999 we recorded a total of \$6.0 million in restructuring costs, composed of \$4.0 million for inventory obsolescence and \$2.0 million for asset and facility redundancy costs. During fiscal 2000, we recorded additional restructuring

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charges of \$1.9 million related to employee terminations. As of December 30, 2000 the restructuring plan for IGT-Australia was substantially complete. No additional charges were recorded in fiscal 2001. While we have been successful in returning IGT-Australia to profitability, we operate in a highly competitive and stringent regulatory environment.

IGT-Brazil

In the fourth quarter of fiscal 1999, the government in Brazil rescinded the law allowing gaming devices in bingo halls throughout this market. At that time, we recorded impairment charges of \$5.3 million relating to our assessment of the recoverability of our inventories and receivables in Brazil. Payments collected for receivables previously considered fully impaired totaled \$500,000 and \$358,000 in the first quarter of fiscal 2001 and 2000.

Notes to Condensed Consolidated Financial Statements

5. Earnings Per Share

The following table shows the reconciliation of basic earnings per share (EPS) to diluted EPS:

	Three Months Ended	
	December 30, 2000	January 1, 2000

(Amounts in thousands, except per share amounts)		
Income before extraordinary item	\$ 48,191 =====	\$ 42,404 =====
Weighted average common shares outstanding	72,761	86,401
Dilutive effect of stock options outstanding	2,835 -----	779 -----
Weighted average common and potential shares outstanding	75,596 =====	87,180 =====
Basic earnings per share	\$ 0.66	\$ 0.49
Diluted earnings per share	\$ 0.64	\$ 0.49
Number of common shares excluded from diluted EPS because option exercise price was greater than average market price	148	1,293

6. 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 and tax return purposes.

7. Comprehensive Income

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Items of other comprehensive income include cumulative foreign currency translation adjustments and net unrealized gains and losses on investment securities. Our total comprehensive income is as follows:

	Three Months Ended	
	December 30, 2000	January 1, 2000

(Dollars in thousand)		
Net income	\$ 48,191	\$42,404
Net change in other comprehensive income	2,796	(1,182)
	-----	-----
Comprehensive income	\$ 50,987	\$41,222
	=====	=====

8. Supplemental Statement of Cash Flows Information

Certain noncash investing and financing activities are not reflected in the consolidated statements of cash flows.

We manufacture gaming machines which are used on our proprietary systems and are leased to customers under operating leases. Transfers between inventory and fixed assets resulted in an increase to property, plant and equipment of \$13.2 million during the current period and \$4.9 million during the comparable prior year period.

The tax benefit of stock options and the employee stock purchase plan totaled \$6.2 million for the three months ended December 30, 2000 and \$148,000 during the year earlier period.

Notes to Condensed Consolidated Financial Statements

Payments of interest were \$45.1 million for the first three months of fiscal 2001 and \$44.6 million for the first three months of fiscal 2000. Payments for income taxes were \$12.8 million and \$25.9 million for the three months ended December 30, 2000 and January 1, 2000.

9. Contingencies

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.

Ahern

Along with a number of other public gaming corporations, IGT is a defendant in three class action lawsuits: one filed in the United States District Court of Nevada, Southern Division, entitled Larry Schreier v. Caesar's World, Inc., et al, and two filed in the United States District Court of Florida, Orlando Division, entitled Poulos v. Caesar's World, Inc., et al. and Ahern v. Caesar's 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

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give rise to claims for common law fraud and unjust enrichment, and seeks compensatory, special, consequential, 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 on February 11, 1998. At this time, motions concerning class certification are pending before the Court.

Acres

In February 1999, the Spin for Cash Wide Area Progressive Joint Venture (Joint Venture), to which IGT and Anchor Gaming, Inc. (Anchor) are partners, and Anchor filed an action in US District Court, District of Nevada against Acres Gaming, Inc. (Acres). IGT is not a party to this action. The complaint alleges, among other things, infringement of certain secondary event patents owned by Anchor and licensed to the Joint Venture. In April 1999, Acres responded by filing an answer and counterclaim against the Joint Venture and Anchor. In addition, in April 1999, Acres filed an action in Oregon state circuit court against the Joint Venture and Anchor alleging wrongful use of Acres' intellectual property. The Oregon state circuit court action has been removed to the US District Court, District of Oregon, and has been stayed pending the outcome of the Nevada actions.

Notes to Condensed Consolidated Financial Statements

10. Business Segments

IGT operates principally in two lines of business: the development, manufacturing, marketing and distribution of gaming products, referred to as "product sales", and the development, marketing and operation of wide-area progressive systems and gaming equipment leasing, referred to as "proprietary gaming". The proprietary gaming segment includes our wholly-owned gaming operations and our unconsolidated joint venture activities reported as earnings of unconsolidated affiliates. Gaming operations and joint venture activities are viewed as a single business segment because the nature of the products in the joint ventures are the same as the products in our wholly-owned gaming operations. The same management group monitors all activities of the proprietary gaming segment. The joint venture is an integral part of our proprietary gaming segment.

There have been no material changes in the basis of measuring segment profit or in the amount of identifiable assets for any operating segment since our last annual report.

The table below presents information as to our operations by these lines of business as of:

	Three Months Ended	
	December 30, 2000	January 1, 2000

(Dollars in thousand)		
Revenues		
Product sales	\$ 192,350	\$ 109,760

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Proprietary gaming		
Gaming operations	78,079	75,891
Earnings of unconsolidated affiliates	31,302	20,866
	-----	-----
Total proprietary gaming	109,381	96,757
	-----	-----
Total	301,731	206,517
Less earnings of unconsolidated affiliates	(31,302)	(20,866)
	-----	-----
Total Revenue	\$ 270,429	\$ 185,651
	=====	=====
Operating Profit		
Product sales	\$ 38,705	\$ 15,884
Proprietary gaming		
Gaming operations	29,517	24,037
Earnings of unconsolidated affiliates	25,733	16,298
	-----	-----
Total Proprietary Gaming	55,250	40,335
	-----	-----
Total	93,955	56,219
Other non-allocated (income) expense, including interest	(17,461)	10,037
	-----	-----
Income Before Income Taxes	\$ 76,494	\$ 66,256
	=====	=====

11. Acquisitions

In December 2000, IGT entered into an Agreement and Plan of Merger with Silicon Gaming, Inc. (Silicon). Silicon, headquartered in Palo Alto, California, designs and manufactures a full line of innovative wagering products and holds an extensive library of game applications. Under the terms of the transaction, the total consideration paid by IGT would be approximately \$45.0 million adjusted by certain asset and liability

Notes to Condensed Consolidated Financial Statements

balances as of the acquisition date. The business combination is expected to be completed in March 2001, conditioned upon regulatory approvals, Silicon shareholder approval and other customary closing conditions.

12. Derivatives and Hedging Activities

IGT adopted Statement of Financial Accounting Standard No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," on October 1, 2000. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

During the current period, IGT entered into forward exchange contracts to hedge our net exposure, by currency, related to the monetary assets and liabilities of our operations denominated in non-functional currency. These forward exchange contracts were not designated as hedging instruments under SFAS 133, and gains and losses were recognized in current earnings.

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The adoption of SFAS 133 did not have a material impact on our financial condition or results of operations.

13. Reclassifications

Certain amounts in the unaudited condensed consolidated financial statements presented for the prior year comparable periods have been reclassified to be consistent with the presentation used in the current fiscal periods. In this report and in each of our reports, as amended, beginning with our Report on Form 10-K for the year ended September 30, 2000, we have reclassified our presentation of earnings from unconsolidated joint venture operations. We previously reported earnings from unconsolidated joint ventures, net of expenses, as a component of gaming operations revenues. In each of our reports as amended, beginning with our Report on Form 10-K for the year ended September 30, 2000 and going forward, we will report the net results of our unconsolidated joint ventures as a separate component of operating income on our income statement under a separate caption titled Earnings of Unconsolidated Affiliates.

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

Results of Operations

Three Months Ended December 30, 2000 Compared to the Three Months Ended January 1, 2000

Net income for the current quarter totaled \$48.2 million or \$0.64 per diluted share compared to income before one-time items in the prior year quarter of \$26.3 million or \$0.30 per diluted share. The prior year net income of \$42.4 million or \$0.49 per diluted share included a legal settlement gain of \$27.0 million (\$17.3 million, net of tax) and restructuring charges of \$1.8 million (\$1.2 million, net of tax) primarily related to our Australian operations.

Operating Income

Operating income grew 79% to \$88.7 million or 33% of revenues for the quarter just ended compared to \$49.6 million or 27% of revenues in the first quarter of fiscal 2000. This improvement was due to the increased gross profit margins in both product sales and gaming operations and increased earnings of unconsolidated affiliates, partially offset by higher operating expenses, as discussed above.

Revenues, Gross Profit Margins and Earnings of Unconsolidate Affiliates

Total revenues for the first quarter of fiscal 2001 grew to \$270.4 million compared to \$185.7 million in the first quarter of fiscal 2000, reflecting a 75% increase in product sales revenue and a 3% increase in game operations revenue. Both domestic and international revenues experienced marked improvements over the same quarter one year ago. Gross profit on total revenues for the first quarter of fiscal 2001 increased 44% to \$121.2 million compared to \$84.1 million for the first quarter of fiscal 2000. This improvement was attributable primarily to growth in profitability quarter-over-quarter in product sales.

Worldwide, IGT shipped 30,000 gaming machines for product sales of \$192.4 million during the current quarter versus 19,500 machines and \$109.8 million in the same quarter last year. Domestic shipments increased 79% to 15,000 units for the current quarter from 8,400 units in the year earlier quarter. This increase is due to strong growth in the replacement sales, which grew domestically to 62% in the current period, up from 40% in the year earlier period, as well as the

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continued expansion in the Native American markets, especially California. Domestic product sales were driven mainly by the popularity of IGT's video reel offerings including Little Green Men(TM), Texas Tea(TM), and Double Diamond 2000(TM) which debuted at the October 1999 World Gaming Congress and Expo(R). Newer games, including Cleopatra(TM) and Neon Nights(TM) first introduced at the October 2000 show, have yet to impact sales revenue, but are becoming important contributors to our backlog.

International shipments, comprising half of total units sold during the current quarter, increased 34% to 15,000 units compared to 11,200 units in the comparable prior year quarter. Unit sales in Australia increased 83% over the prior year quarter due to the successful introduction of new games pushing earnings and units to record levels. Barcrest's unit sales improved by 30% to 8,800 units, marking the success of new AWP games, including Revolution(TM), King Kebab(TM), and Big Brother(TM).

The gross profit margin on product sales improved to 40% in the current quarter compared to 38% in the comparable prior year quarter attributable to a stronger mix of new video products and a higher percentage of domestic sales to overall product revenue.

Revenue from gaming operations for the current quarter improved to \$78.1 million compared to \$75.9 million in the same quarter last year. Gross profit in gaming operations improved to \$44.0 million for the current quarter versus \$42.6 million in the year earlier period. The gross margin percent remained constant at 56% quarter-over-quarter.

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

Earnings of unconsolidated affiliates, reported net of expenses for accounting purposes, grew by 50% to \$31.3 million from \$20.9 million in the comparable prior year quarter, due to the continued popularity of the Wheel of Fortune(R) games.

The continued growth in the proprietary gaming segment, which includes our wholly-owned gaming operations and our unconsolidated joint venture activities reported as earnings of unconsolidated affiliates, reflects a positive customer response to IGT's newer game themes including The Addams Family (TM), Jeopardy!(R) Video, and the joint venture games of Wheel of Fortune(R) and I Dream of Jeannie(TM). The installed base of our proprietary gaming machines, including placement under joint ventures, increased 29% to 20,900 units at December 30, 2000 compared to 16,200 one year earlier. Of the current installed base, approximately 18,300 units are new platform, higher performing games, including 11,500 joint venture Wheel of Fortune(R) units. During the current quarter, 847 legacy units were discontinued.

Operating Expenses

Current quarter operating expenses totaled \$63.8 million or 24% of total revenues compared to \$55.4 million or 30% in the prior year quarter. The \$6.6 million increase in selling, general and administrative expenses reflects increased incentives related to higher sales volumes. Research and development expenses increased to \$14.1 million for the current quarter, primarily due to new game development costs. Bad debt expense increased \$3.9 million over the prior year quarter primarily due to increased sales volumes.

Other Income and Expense

Other expense, net, for the current quarter, totaled \$12.2 million compared to other income, net, of \$16.6 million in the prior year quarter. The prior year period benefited from the \$27.0 million legal settlement. Operation of our

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MegaJackpots(TM) systems results in interest income from both the investment of cash and from investments purchased to fund jackpot payments. Interest expense on the jackpot liability is accrued at the rate earned on the investments purchased to fund the liability. Therefore, interest income and expense relating to funding jackpot winners are similar and increase at approximately the same rate based on the growth in total jackpot winners.

Our consolidated tax rate increased to 37% from 36% in the year earlier quarter. We expect this tax rate to be in effect for the full fiscal year 2001.

Business Segments Operating Profit (See Note 10 of Notes to Condensed Consolidated Financial Statements)

IGT's operating profit by business segment reflects an appropriate allocation of selling, general and administrative expenses, research and development expenses, interest income, and interest expense. Gaming operations and earnings from our joint venture activities are included in the proprietary gaming segment.

Product sales operating profit for the quarter just ended grew to \$38.7 million or 20% of related revenues compared to \$15.9 million or 14% in the prior year quarter. This positive movement resulted from an increase in unit sales and an improved gross margin partially offset by higher incentive and bad debt expenses, both due to increased sales volumes. Operating profit for the proprietary gaming segment in the first quarter of fiscal 2001 totaled \$55.3 million, an increase of \$14.9 million or 37% over the same quarter last year. This improvement resulted from the growth of the installed base of MegaJackpots(TM) units, the improvement in joint

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

venture earnings, reported net of expenses for accounting purposes, and favorable player acceptance of our new games.

Financial Condition, Liquidity and Capital Resources

Capital Resources

IGT's sources of capital include cash flows from operations, the issuance of public or private placement debt, bank borrowings, and the issuance of equity securities. We believe that our available short-term and long-term capital resources are sufficient to fund our capital expenditure and operating capital requirements, scheduled debt payments, interest and income tax obligations, strategic investments, acquisitions, and share repurchases. Our sources of capital afford us the financial flexibility to target acquisition of businesses that offer opportunities to implement our operating strategies, increase our rates of return, and improve shareholder value.

Credit Facilities

Our domestic and foreign borrowing facilities totaled \$266.1 million at December 30, 2000. The reserve for letters of credit totaled \$2.8 million and the remaining \$263.3 million was available for future borrowings. We are required to comply with certain covenants contained in these agreements which, among other things, limit financial commitments we may make without the written consent of the lenders and require the maintenance of certain financial ratios. At December 30, 2000, we were in compliance with all applicable covenants.

Summary of Cash Activities

In the first quarter of 2001, IGT's cash decreased \$25.6 million due to net cash used in operating and investing activities partially offset by net cash provided by financing activities.

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Our proprietary MegaJackpots(TM) systems provide cash through collections from systems to fund jackpot liabilities and from maturities of US government securities purchased to fund jackpot liabilities. Cash is used to make payments to jackpot winners or to purchase investments to fund liabilities to jackpot winners. These activities provided cash of \$5.6 million in the first three months of fiscal 2001 and \$9.1 million in comparable prior year period. Fluctuations in net cash flows from systems represent differences between the growth in liabilities for jackpots and the actual payments to the winners during the period, based on the timing of the jackpot cycles and the volume of play across all of our MegaJackpots(TM) systems.

Operating Activities: Cash used by operating activities in the first three months of fiscal 2001 totaled \$29.8 million compared to cash provided in the prior year period of \$33.8 million. The most significant fluctuations related to sales volumes and timing in receivables, inventories, prepaid expenses and accrued income taxes. The decrease in accrued liabilities is due to the timing of the interest payments on the \$1.0 billion dollar Senior Notes.

Investing Activities: Use of cash from investing activities included purchases of property, plant, and equipment totaling \$4.5 million in the current three month period compared to \$2.8 million in the prior year period. Cash provided by investing activities in the prior period was primarily due to proceeds from the sale of the Miss Marquette riverboat held for sale as part of the Sodak acquisition.

Financing Activities: The primary sources of cash in financing activities in the current period were collections from systems and proceeds from employee stock plans. The primary use of cash in financing activities in the prior year period related to treasury stock purchases.

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Stock Repurchase Plan

IGT's stock repurchase plan was originally authorized by our Board of Directors in October 1990. As of January 27, 2001, the remaining share repurchase authorization, as amended, totaled 10.8 million additional shares. No additional shares have been repurchased during the period October 1, 2000 to January 27, 2001.

Recently Issued Accounting Standards

On June 30, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards for derivative instruments and hedging activities and is in effect for the current quarter. The adoption of this statement during the current quarter has not had a material impact on our financial condition or results of operations. See Note 12 of Notes to Condensed Consolidated Financial Statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 clarifies existing accounting principles related to revenue recognition in financial statements and is effective for the fourth quarter of our fiscal year 2001. We believe that the adoption of this statement will not have a material impact on our financial condition or results of operations.

Euro Currency Conversions

On January 1, 1999, 11 of 15 member countries of the European Union fixed conversion rates between their existing currencies and one common currency, the

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"euro". Conversion to the euro eliminated currency exchange rate risk between the member countries. The euro trades on currency exchanges and may be used in business transactions. Beginning in January 2002, new euro-denominated bills and coins will be issued and the former currencies will be withdrawn from circulation.

Our operating subsidiaries affected by the euro conversion have established plans to address the issues raised by the euro currency conversion. These issues include: the need to adapt financial systems and business processes; changes required to equipment, such as coin validators and note acceptors, to accommodate euro-denominated transactions in our current products; and the impact of one common currency on pricing. We do not expect material system and equipment conversion costs related exclusively to the euro. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects that one common currency will have on pricing and the resulting impact, if any, on our financial condition or results of operations.

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would" and similar terms and phrases, including references to assumptions.

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

Such forward-looking statements and IGT's operations, financial condition and results of operations involve known and unknown risks and uncertainties. Such risks and factors include, but are not limited to, the following:

- o a decline in demand for IGT's gaming products or reduction in the growth rate of new and existing markets;
- o delays of scheduled openings of newly constructed or planned casinos;
- o the effect of changes in economic conditions;
- o a decline in public acceptance of gaming;
- o unfavorable public referendums or anti-gaming legislation;
- o unfavorable legislation affecting or directed at manufacturers or operators of gaming products and systems;
- o delays in approvals from regulatory agencies;
- o political and economic instability in developing markets for IGT's products;
- o a decline in the demand for replacement machines;
- o a decrease in the desire of established casinos to upgrade machines in response to added competition from newly constructed casinos;
- o a decline in the appeal of IGT's gaming products or an increase in the popularity of existing or new games of competitors;
- o changes in interest rates causing a reduction of investment income or in market interest rate sensitive investments;
- o loss or retirement of our key executives or other key employees;
- o approval of pending patent applications of parties unrelated to IGT that restrict our ability to compete effectively with products that are the subject of such pending patents or infringement upon existing patents;

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- o the effect of regulatory and governmental actions, including regulatory or governmental actions challenging our compliance with applicable gaming regulations;
- o unfavorable determinations or challenges of suitability by gaming regulatory authorities with respect to our officers, directors or key employees;
- o the limitation, conditioning, suspension or revocation of any of our gaming licenses;
- o fluctuations in foreign exchange rates, tariffs and other barriers;
- o adverse changes in the credit worthiness of parties with whom IGT has forward currency exchange contracts;
- o the loss of sublessors of leased properties no longer used by IGT;
- o with respect to legal actions pending against IGT, the discovery of facts not presently known to IGT or determinations by judges, juries or other finders of fact which do not accord with IGT's evaluation of the possible liability or outcome of existing litigation.

We do not undertake to update our forward-looking statements to reflect future events or circumstances.

Item 3. Quantitative and Qualitative Factors about Market Risk

Market Risk

Under established procedures and controls, we enter into contractual arrangements or derivatives, in the ordinary course of business, to hedge our exposure to foreign exchange rate and interest rate risks. The counterparties to these contractual arrangements are major financial institutions and we believe that credit loss in the event of nonperformance is remote.

Foreign Currency Risk

We routinely use forward exchange contracts to hedge our net exposures, by currency, related to the monetary assets and liabilities of our operations denominated in non-functional currency. The primary business objective of this hedging program is to minimize the gains and losses resulting from exchange rate changes. At December 30, 2000, we had net foreign currency exposure of \$54.3 million hedged with \$52.9 million in currency forward contracts. At September 30, 2000, we had net foreign currency exposure of \$58.0 million, of which \$63.5 million was hedged with currency forward contracts. 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.

Given our foreign exchange position, a ten percent 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.

As currency exchange rates change, translation of the income statements of our international businesses into US dollars affects year-over-year comparability of operating results. IGT does not generally hedge translation risks because cash flows from international operations are generally reinvested locally.

Changes in the currency exchange rates that would have the largest impact on translating our international operating results include the Australian dollar, the British pound and the Japanese yen. We estimate that a ten percent change in foreign exchange rates would impact reported operating results by less than \$1.0 million in the current three month period and in the prior year comparable

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period. 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 IGT's results of operations are exposed to fluctuations in bank lending rates and the cost of US government securities, both of which are used to fund liabilities to jackpot winners. We record expense for future jackpots based on these rates which are impacted by market interest rates and other economic conditions. Therefore, the gross profit on our proprietary gaming segment decreases when interest rates decline. We estimated that a 10% decline in interest rates would have impacted gaming operations gross profit by \$0.6 million and earnings from unconsolidated affiliates by \$0.4 million in the current period versus \$0.5 million and \$0.2 million in the prior year comparable period. IGT currently does not manage this exposure with derivative financial instruments.

Our outstanding Senior Notes carry interest at fixed rates. If interest rates increased by ten percent, we estimated the fair market value of these notes would have decreased approximately \$38.0 million at December 30, 2000 and \$40.1 million at September 30, 2000.

Part II - Other Information

Item 1. Legal Proceedings

(See Note 9 of Notes to Condensed Consolidated Financial Statements.)

Item 2. Changes in Securities

None.

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

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

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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 3, 2001

INTERNATIONAL GAME TECHNOLOGY

By: /s/ Maureen Mullarkey

Maureen Mullarkey
Senior Vice President and
Chief Financial Officer