

PNM RESOURCES INC
Form 4
December 30, 2004

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
STERBA JEFFRY E

2. Issuer Name and Ticker or Trading Symbol
PNM RESOURCES INC [PNM]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
ALVARADO SQUARE, MS 2824

3. Date of Earliest Transaction (Month/Day/Year)
12/28/2004

Director 10% Owner
 Officer (give title below) Other (specify below)

CHMN, PRES AND CEO

(Street)
ALBUQUERQUE, NM 87158

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership Indirect Beneficial Ownership (Instr. 4)		
				(A) or (D)	Code	V	Amount	(D)	Price

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security
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(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)	Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	(Instr. 5)						
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	(Instr. 5)
Phantom Stock Units	(1)	12/28/2004	A		37		(2)	(2)	COMMON STOCK	37	(2)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
STERBA JEFFRY E ALVARADO SQUARE MS 2824 ALBUQUERQUE, NM 87158	X		CHMN, PRES AND CEO	

Signatures

JEFFRY E.
STERBA 12/30/2004

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) THE SECURITY CONVERTS TO COMMON STOCK ON A ONE FOR ONE BASIS.
- (2) THE PHANTOM STOCK UNITS WERE ACQUIRED UNDER THE PNM RESOURCES, INC. EXECUTIVE SAVINGS PLAN, AND WILL BE SETTLED UPON THE REPORTING PERSON'S RETIREMENT OR OTHER TERMINATION OF SERVICE.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. mes new roman; FONT-SIZE: 10pt">1,100 19% 10,600 10,800 (200) -2%

International	3,400	3,300	100	3%	6,900	6,500	400	6%
Units shipped (2)	10,500	8,900	1,600	18%	17,000	16,400	600	4%
North America	6,700	5,300	1,400	26%	10,200	9,800	400	4%
International	3,800	3,600	200	6%	6,800	6,600	200	3%
Revenues								

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	\$240.8	\$207.2	\$33.6	16%	\$421.8	\$405.5	\$16.3	4%
North America								
	160.8	135.0	25.8	19%	263.9	268.7	(4.8)	-2%
International								
	80.0	72.2	7.8	11%	157.9	136.8	21.1	15%
Gross margin								
	55%	56%	(1) pp	-2%	53%	56%	(3) pp	-5%
North America								
	57%	55%	2 pp	4%	55%	56%	(1) pp	-2%
International								
	50%	56%	(6) pp	-11%	49%	55%	(6) pp	-11%

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

Three months ended March 31, 2012 compared with three months ended March 31, 2011

Gaming operations revenues improved in both regional segments mainly due to added contributions from our recently acquired interactive businesses of \$25.5 million and from installed base growth in lease operations. Overall, our installed base grew 7%, primarily in lease operations. Gross margin declined primarily due to higher expenses, including depreciation, and a greater mix of interactive and lower-yield units. Jackpot expense decreased \$4.1 million, primarily due to variations in slot play, partially offsetting higher expenses.

Product sales revenues increased \$33.6 million primarily due to increased units recognized (up 13%) and increases in average sales price per unit (up 8%). Increased unit sales were driven primarily by higher replacement demand. Gross margin declined primarily due to higher international machine costs partially offset by lower North America machine costs, and an overall lower mix of higher margin non-machine sales.

Six months ended March 31, 2012 compared with six months ended March 31, 2011

Gaming operations revenues improved in both regional segments mainly due to added contributions from our recently acquired interactive businesses of \$30.1 million and from installed base growth in lease operations. Overall, our installed base grew 7%, primarily in lease operations. Gross margin declined primarily due to higher expenses, including depreciation, and a greater mix of interactive and lower-yield units.

Product sales revenues increased \$16.3 million primarily due to increased units recognized (up 1%) and increases in average sales price per unit (up 10%). Increased unit sales were driven primarily by higher replacement demand. Gross margin declined primarily due to higher international machine costs partially offset by lower North America machine costs, and an overall lower mix of higher margin non-machine sales.

Deferred revenue decreased \$9.0 million during the first six months of 2012 to \$50.1 million at March 31, 2012, primarily related to the completion of obligations under multi-element contracts. During the first six months of 2012, we recognized revenues for 1,200 units previously shipped and 700 units shipped for which revenues were deferred, for a net decrease of 500 units in deferred revenue.

Operating Expenses

	Quarter Ended		Favorable		Six Months Ended		Favorable		
	March 31, 2012	2011	(Unfavorable) Amount	%	March 31, 2012	2011	(Unfavorable) Amount	%	
Selling, general and administrative	\$109.3	\$89.1	\$(20.2)	-23 %	\$199.1	\$171.3	\$(27.8)	-16 %	
Research and development	55.3	48.7	(6.6)	-14 %	102.2	97.6	(4.6)	-5 %	
Depreciation and amortization	19.3	16.7	(2.6)	-16 %	34.7	34.8	0.1	-	
Contingent acquisition related costs	11.7	-	(11.7)	-	11.7	-	(11.7)	-	
Total operating expenses	\$195.6	\$154.5	\$(41.1)	-27 %	\$347.7	\$303.7	\$(44.0)	-14 %	
Percent of revenues	36 %	32 %			35 %	33 %			

Three months ended March 31, 2012 compared with three months ended March 31, 2011

Increased operating expense was largely due to initiatives and acquisitions related to our interactive product line of \$30.5 million, which included acquisition related charges primarily related to DoubleDown of \$11.7 million for contingent retention and earn-out costs, \$4.5 million for professional fees, and \$3.9 million for the amortization of intangibles. SG&A also included settlement charges of \$3.1 million related to the early cancellation of a distributor arrangement. Additionally, operating expenses increased \$11.2 million primarily related to higher employee costs, partially offset by lower bad debt provisions (down \$3.7 million.) Higher employee costs primarily related to increases in head count, as well as salaries and severance.

Six months ended March 31, 2012 compared with six months ended March 31, 2011

Increased operating expense was largely due to initiatives and acquisitions related to our interactive product line of \$35.7 million, which included acquisition related charges primarily related to DoubleDown of \$11.7 million for contingent retention and earn-out costs, \$5.7 million for professional fees, and \$3.9 million for the amortization of intangibles. SG&A also included settlement charges of \$3.1 million related to the early cancellation of a distributor arrangement. Additionally, operating expenses increased \$14.8 million primarily related to higher employee costs, partially offset by lower bad debt provisions (down \$5.6 million) and other reduced depreciation and amortization (down \$4.0 million.) Higher employee costs primarily related to increases in head count, as well as salaries and severance.

Other Income (Expense)

	Quarter Ended March 31,		Favorable (Unfavorable)		Six Months Ended March 31,		Favorable (Unfavorable)	
	2012	2011	Amount	%	2012	2011	Amount	%
Interest Income	\$ 10.8	\$ 13.3	\$ (2.5)	-19 %	\$ 22.9	\$ 26.6	\$ (3.7)	-14 %
WAP investments	5.1	5.7	(0.6)	-11 %	10.3	11.5	(1.2)	-10 %
Receivables and investments	5.7	7.6	(1.9)	-25 %	12.6	15.1	(2.5)	-17 %
Interest Expense	(30.0)	(35.6)	5.6	16 %	(60.1)	(71.0)	10.9	15 %
WAP jackpot liabilities	(5.1)	(5.7)	0.6	11 %	(10.2)	(11.5)	1.3	11 %
Borrowings	(16.9)	(22.6)	5.7	25 %	(34.0)	(45.0)	11.0	24 %
Convertible debt equity discount	(8.0)	(7.3)	(0.7)	-10 %	(15.9)	(14.5)	(1.4)	-10 %
Other	(2.0)	(1.0)	(1.0)	*	(4.8)	3.4	(8.2)	*
Total other income (expense), net	\$ (21.2)	\$ (23.3)	\$ 2.1	9 %	\$ (42.0)	\$ (41.0)	\$ (1.0)	-2 %

Three months ended March 31, 2012 compared with three months ended March 31, 2011

The favorable variance in total other income (expense) was primarily due to decreased interest expense on lower borrowings, partially offset by lower interest income and foreign currency losses.

WAP interest income and expense relates to previous jackpot winner liabilities and accretes at approximately the same rate. WAP interest income also includes earnings on restricted cash and investments held for future winner payments.

Six months ended March 31, 2012 compared with six months ended March 31, 2011

The unfavorable variance in total other income (expense) was primarily due to reduced interest income, lower investment gains, and foreign currency losses, partially offset by decreased interest expense on lower borrowings. Prior year other income included a gain of \$4.3 million on the sale of our CLS equity investment.

Income Tax Provision (See Note 12)

	Quarter Ended March 31,		Favorable (Unfavorable)		Six Months Ended March 31,		Favorable (Unfavorable)	
	2012	2011	Amount		2012	2011	Amount	
Income tax provision	\$34.4	\$37.1	\$2.7		\$63.2	\$66.8	\$3.6	
Effective tax rate	35.5	% 35.4	%	(0.1) pp	35.9	% 32.2	%	(3.7) pp

Our 2012 effective tax rate on income from continuing operations increased largely due to changes in certain discrete tax items. The 2011 provision included favorable discrete tax items of \$7.0 million related to our manufacturing deduction and the retroactive reinstatement of the R&D tax credit. In addition, the 2012 provision was negatively impacted by losses in foreign jurisdictions for which there were no associated tax benefits and the expiration of the R&D tax credit.

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

BUSINESS SEGMENT RESULTS (See Note 16)

NORTH AMERICA

	Quarters Ended		Favorable		Six Months Ended		Favorable			
	March 31,	March 31,	(Unfavorable)	(Unfavorable)	March 31,	March 31,	(Unfavorable)	(Unfavorable)	Amount	%
	2012	2011	Amount	%	2012	2011	Amount	%		
GAMING OPERATIONS										
Installed base (units)	42,700	40,500	2,200	5 %	42,700	40,500	2,200	5 %		
MegaJackpots® (premium brand)	24,500	23,500	1,000	4 %	24,500	23,500	1,000	4 %		
Lease (CDS, racino, other)	18,200	17,000	1,200	7 %	18,200	17,000	1,200	7 %		
Double Down Average User Statistics*										
Daily users	1.4									
Monthly users	5.0									
Revenues	\$254.7	\$232.9	\$21.8	9 %	\$474.3	\$450.9	\$23.4	5 %		
Gross margin	59 %	61 %	(2) pp	-3 %	59 %	61 %	(2) pp	-3 %		
PRODUCT SALES										
Machine units recognized	6,800	5,700	1,100	19 %	10,600	10,800	(200)	-2 %		
Machine units shipped	6,700	5,300	1,400	26 %	10,200	9,800	400	4 %		
New/expansion	1,700	1,500	200	13 %	2,400	2,900	(500)	-17 %		
Replacement	5,000	3,800	1,200	32 %	7,800	6,900	900	13 %		
Revenues	\$160.8	\$135.0	\$25.8	19 %	\$263.9	\$268.7	\$(4.8)	-2 %		
Machines	101.4	77.8	23.6	30 %	160.5	153.3	7.2	5 %		
Non-machine (systems, parts, other)	59.4	57.2	2.2	4 %	103.4	115.4	(12.0)	-10 %		
Gross margin	57 %	55 %	2 pp	4 %	55 %	56 %	(1) pp	-2 %		
TOTAL REVENUES	\$415.5	\$367.9	\$47.6	13 %	\$738.2	\$719.6	\$18.6	3 %		
Gross Margin	59 %	59 %	- pp	-	58 %	59 %	(1) pp	-2 %		
OPERATING INCOME	\$123.1	\$121.3	\$1.8	1 %	\$215.7	\$234.8	\$(19.1)	-8 %		
Margin	30 %	33 %	(3) pp	-9 %	29 %	33 %	(4) pp	-12 %		

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

Three months ended March 31, 2012 compared with three months ended March 31, 2011

North America gaming operations revenues increased \$21.8 million primarily due to contributions from DoubleDown. Gross margin declined primarily due to higher expenses, including depreciation from the increasing mix of newer games, and a greater mix of lower-yield units in our installed base.

North America product sales revenues increased \$25.8 million primarily due to increased units recognized (up 19%) and increases in average sales price per unit (up 10%). Increased unit sales were driven primarily by higher replacement demand. Higher average sales price was driven by a favorable mix of premium priced MLD units, which comprised 44% of total units shipped compared to 14% in the prior year quarter. Gross margin improvement was primarily due to lower manufacturing costs mostly related to volume efficiencies.

North America operating income improvement was primarily the result of higher product sales volume and increased interactive revenues in gaming operations, partially offset by higher operating costs. Acquisition related charges primarily related to DoubleDown, added \$5.4 million in amortization of intangibles and \$11.6 million in contingent retention and earn-out.

Six months ended March 31, 2012 compared with six months ended March 31, 2011

North America gaming operations revenues increased \$23.4 million primarily due to added contributions from DoubleDown, as well as installed base growth in MegaJackpots® premium brands and lease operations. Gross margin declined primarily due to higher expenses, including depreciation from the increasing mix of newer games, and a greater mix of lower-yield units.

North America product sales revenues decreased \$4.8 million primarily due to lower non-machine sales and lower units recognized (down 2%) partially offset by increases in average sales price per unit (up 6%). Decreased unit sales were driven primarily by fewer new openings or property expansions. Higher average sales price was driven by a favorable mix of premium priced MLD units, which comprised 49% of total units shipped compared to 8% in the prior year quarter. Non-machine revenues decreased \$12.0 million primarily due to lower Advantage® systems sales and lower parts partially due to fewer promotional conversion kits. Gross margin declined primarily due to unfavorable product mix and higher discounts, partially offset by lower manufacturing costs related to volume efficiencies and reduced engineering rework.

Quarterly replacement units can vary widely depending on the timing of customer needs and the level of promotional programs we offer. We expect our 2012 full year replacement units will be approximately flat to slightly improved over 2011.

North America operating income decline was primarily the result of higher operating costs related to the acquisition of DoubleDown and lower product sales.

INTERNATIONAL

	Quarters Ended		Favorable			Six Months Ended		Favorable		
	March 31, 2012	2011	Amount	%		March 31, 2012	2011	Amount	%	
GAMING OPERATIONS										
Installed base (units)	13,400	12,000	1,400	12	%	13,400	12,000	1,400	12	%
MegaJackpots® (Premium brand)	3,100	4,000	(900)	-23	%	3,100	4,000	(900)	-23	%
Lease	10,300	8,000	2,300	29	%	10,300	8,000	2,300	29	%
Revenues	\$45.7	\$36.9	\$8.8	24	%	\$90.7	\$71.8	\$18.9	26	%
Gross margin	67 %	71 %	(4) pp	-6	%	67 %	71 %	(4) pp	-6	%
PRODUCT SALES										
Machine units recognized	3,400	3,300	100	3	%	6,900	6,500	400	6	%
Machine units shipped	3,800	3,600	200	6	%	6,800	6,600	200	3	%
New/expansion	2,000	2,300	(300)	-13	%	3,300	3,100	200	6	%
Replacement	1,800	1,300	500	38	%	3,500	3,500	-	-	%
Revenues	\$80.0	\$72.2	\$7.8	11	%	\$157.9	\$136.8	\$21.1	15	%
Machines	59.7	53.3	6.4	12	%	116.3	96.4	19.9	21	%
Non-machine (systems, parts, other)	20.3	18.9	1.4	7	%	41.6	40.4	1.2	3	%
Gross margin	50 %	56 %	(6) pp	-11	%	49 %	55 %	(6) pp	-11	%
TOTAL REVENUES	\$125.7	\$109.1	\$16.6	15	%	\$248.6	\$208.6	\$40.0	19	%
Gross Margin	56 %	61 %	(5) pp	-8	%	56 %	60 %	(4) pp	-7	%
OPERATING INCOME	\$27.9	\$32.4	\$(4.5)	-14	%	\$59.9	\$61.5	\$(1.6)	-3	%
Margin	22 %	30 %	(8) pp	-27	%	24 %	29 %	(5) pp	-17	%

Three months ended March 31, 2012 compared with three months ended March 31, 2011

International gaming operations revenues increased \$4.7 million primarily due to growth in our lease operations installed base and average yield per unit, as well as \$4.1 million from added contributions from interactive businesses.

Installed base growth in lease operations was partially offset by decreased MegaJackpots® premium brands. Gaming operations gross margin declined primarily due to a greater mix of lower-yield units and higher expenses, including depreciation from the increasing mix of newer games.

International product sales revenues increased \$7.8 million primarily due to increased units recognized (up 3%) and increases in average sales price per unit (up 9%) attributed to increased focus on creating customer value with locally attuned content. Additionally, higher systems sales drove non-machine revenue growth. Gross margin declined primarily due to higher freight and warranty costs.

International operating income declined as a result of higher costs, mostly related to Entraction, and charges of \$3.1 million related to a distributor cancellation settlement, partially offset by increased revenues.

Six months ended March 31, 2012 compared with six months ended March 31, 2011

International gaming operations revenues increased \$10.2 million from added contributions from interactive businesses and \$8.7 million from growth in our lease operations installed base and average yield per unit. Gross margin declined primarily due to a greater mix of lower-yield units and higher expenses, including depreciation, from the increasing mix of newer games.

International product sales revenues increased \$21.1 million primarily due to higher recognized units (up 6%) and increases in average sales price per unit (up 14%) attributed to increased focus on creating customer value with locally attuned content. Gross margin declined primarily due to a higher contribution in the prior year from Mexico lease-conversion games that carried atypically high margins, as well as higher freight and warranty costs, and a lower mix of higher-margin non-machine sales.

International operating income decline was primarily the result of higher operating costs related to Entraction, partially offset by higher revenues.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES OF LIQUIDITY

Selected Financial Information and Statistics

	March 31, 2012	September 30, 2011	(Decrease)
Cash and equivalents	\$ 271.1	\$ 460.0	\$(188.9)
Accounts receivable, net	314.0	320.1	(6.1)
Inventories	90.6	73.0	17.6
Working Capital	667.0	875.2	(208.2)
Trailing-twelve month statistics, excluding discontinued operations:			
Days sales outstanding (excluding contracts and notes)	57	60	(3)
Inventory turns	4.6	5.4	(0.8)

At March 31, 2012, our principal sources of liquidity were cash and equivalents and amounts available under Credit Facilities and Indebtedness discussed below. Other potential sources of capital include, but are not limited to, the issuance of debt securities, bank credit facilities and the issuance of equity securities. Foreign subsidiary operations held 50% of our cash and equivalents at March 31, 2012.

Based on past performance and current expectations, we believe the combination of these resources will satisfy our needs for working capital, jackpot liabilities, capital expenditures, debt service, and other liquidity requirements associated with our existing operations into the foreseeable future.

Restricted cash and investments, as well as jackpot annuity investments, are used for funding jackpot winner payments and online player deposits. Restricted cash held by our VIE WAP trusts are used only for funding related jackpot winner payments. See Note 2.

Cash and equivalents decreased \$188.9 million during the six months ended March 31, 2012, primarily due to the use of cash for acquisitions of \$233.0 million, primarily DoubleDown, capital expenditures of \$123.6 million, share repurchases of \$50.1 million, and dividends paid of \$35.7 million. These decreases were partially offset by cash generated from operations of \$176.7 million, net proceeds from investments and loans of \$61.5 million and net employee stock plan proceeds of \$14.3 million.

Inventory turns decreased with higher inventory related to customer deliveries anticipated for our third quarter. Days sales outstanding improved primarily due to lower receivables from increased collections.

Cash Flows Summary

Six months ended March 31, 2012 compared to the six months ended March 31, 2011

	2012	2011	Favorable (Unfavorable)
Operations	\$176.7	\$263.7	\$(87.0)
Investing	(295.1)	0.3	(295.4)
Financing	(74.0)	(119.1)	45.1
Effects of exchange rates	3.5	2.6	0.9
Net Change	\$(188.9)	\$147.5	\$(336.4)

Operating Cash Flows

Operating cash flows decreased primarily due to lower earnings and changes in working capital related to business volume and certain timing impacts. Significant variances in cash used by working capital changes included:

- \$32.3 million less cash provided from receivables due to higher concentration of sales occurring towards the end of March 2012
- \$62.0 million more cash used for estimated income tax payments, as 2011 payments were reduced by overpayments from our federal tax return filed during 2010
- \$34.5 million less cash used for jackpot liabilities, which relates to the timing of jackpots and winner payments, volume of play, and interest rate movements

Investing Cash Flows

We used more cash for investing primarily due to increased business acquisitions spend of \$233.0 million (see Note 17 for more information about DoubleDown and BringIt), and increased capital expenditures.

	2012	2011	Increase (Decrease)
Property, plant and equipment	\$34.5	\$8.4	\$26.1
Gaming operations equipment	87.1	80.2	6.9
Intellectual property	2.0	0.7	1.3
Total capital expenditures	\$123.6	\$89.3	\$34.3

Financing Cash Flows

Decreased cash used for financing was primarily related to decreased debt repayments, partially offset by share repurchases.

CREDIT FACILITIES and INDEBTEDNESS (See Note 10)

At March 31, 2012, no amounts were outstanding on our domestic credit facility, \$726.4 million was available, and \$23.6 million was reserved for letters of credit and performance bonds. Our foreign credit facility in Australia was terminated in April 2012. We were in compliance with all debt covenants at March 31, 2012, with an interest coverage ratio of 12.6:1 and a net funded debt leverage ratio of 2.1:1.

Explanation of Responses:

The domestic credit facility interest rates and facility fees are based on our public debt ratings or our Net Funded Debt to EBITDA ratio (debt minus unrestricted cash and investments in excess of \$150.0 million), whichever is more favorable to IGT. At March 31, 2012, our interest rate was LIBOR plus 102.5 bps on borrowings with a facility fee of 22.5 bps. In May 2012, these interest rates will increase to LIBOR plus 122.5 bps on borrowings and a facility fee of 27.5 bps due to our net funded debt leverage ratio exceeding 2.0:1.

The domestic credit facility carries no limitations on share repurchases or dividend payments, presuming no default and includes the following financial and restrictive covenants (all terms as defined by the facility):

- a minimum ratio of 3.0 adjusted EBITDA to interest expense (interest coverage ratio)
- a maximum ratio of 3.5 for net funded debt to adjusted EBITDA (net funded debt leverage ratio)

- certain restrictions on our ability to:

§ pledge the securities of our subsidiaries

§ permit our subsidiaries to incur or guaranty additional debt, or enter into swap agreements

§ incur liens

§ merge with or acquire other companies, liquidate or dissolve

§ sell, transfer, lease or dispose of all or substantially all assets

§ change the nature of our business

The domestic credit facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including failure to make timely principal and interest payments or satisfy the covenants. An event of default, if not cured, could cause the entire outstanding borrowings under the credit facility to become immediately due and payable; additionally, lenders may cease making loans and/or terminate commitments, and cross default provisions may be triggered in other debt issuances.

FINANCIAL CONDITION

	March 31, 2012	September 30, 2011	Increase (Decrease)
Assets	\$4,348.5	\$4,154.4	\$ 194.1
Liabilities	2,837.7	2,709.6	128.1
Total Equity	1,510.8	1,444.8	66.0

Changes During The Six Months Ended March 31, 2012

Total assets increased primarily due to increases related to business acquisitions (see Note 17) of \$239.2 million in goodwill and \$84.1 million in intangible assets, net of amortization, as well as increases in customer financing of \$32.1 million and net property, plant and equipment of \$29.9 million, partially offset by a decrease in cash of \$188.9 million.

Liabilities increased primarily due to increases related to business acquisitions of \$97.2 million in other liabilities and \$64.2 million in other accrued liabilities, partially offset by decreases in accrued employee benefits of \$18.2 million and \$13.9 million in accounts payable. Total equity increased primarily due to earnings partially offset by treasury share repurchases.

Arrangements with Off-Balance Sheet Risk

In the normal course of business, we are a party to financial instruments with off-balance sheet risk, such as performance bonds, guarantees and product warranties not reflected in our balance sheet. We may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including but not limited to, losses arising:

- out of our breach of agreements with those parties
 - from services to be provided by us
- from IP infringement claims made by third parties

Additionally, we have agreements with our directors and certain officers that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We have also agreed to indemnify certain former officers and directors of acquired companies. We maintain director and officer insurance, which may cover our liabilities arising from these indemnification obligations in certain circumstances.

It is not possible to determine the maximum potential obligations under these indemnification undertakings due to the unique facts and circumstances involved in each particular agreement. Such indemnification undertakings may not be subject to maximum loss clauses. Historically, we have not incurred material costs related to indemnification obligations.

We do not expect any material losses to result from these arrangements and do not rely on off-balance sheet financing arrangements to fund our operations. See Note 11.

RECENTLY ISSUED ACCOUNTING STANDARDS

At March 31, 2012, there were no recently issued accounting standards that are expected to have a material impact on our financial statements. See Note 1.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements were prepared in conformity with US GAAP. Accordingly, we are required to make estimates incorporating judgments and assumptions we believe are reasonable based on our historical experience, contract terms, trends in our company and the industry as a whole, as well as information available from other outside sources. Our estimates affect amounts recorded in the financial statements and actual results may differ from initial estimates.

We consider the following accounting estimates to be the most critical to fully understand and evaluate our reported financial results. They require us to make subjective or complex judgments about matters that are inherently uncertain or variable. The following accounting estimates are considered the most sensitive to changes from external factors.

- revenue recognition
- goodwill, other intangible assets, royalties, and affiliate investments
 - jackpot liabilities and expenses
- inventory and gaming operations equipment
 - income taxes

There have been no significant changes in our critical accounting estimates since those presented in Item 7 of our Annual Report on Form 10-K for the year ended September 30, 2011.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's market risk profile has not changed materially during the first six months of 2012 since those presented in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosures. We recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives. Judgment is required when designing and

evaluating the cost-benefit relationship of potential controls and procedures.

As of the end of the period covered by this report, with the supervision and participation of management, including our CEO and CFO, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our CEO and CFO have concluded that, as of the end of such period, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

As a part of our normal operations, we update our internal controls as necessary to accommodate any modifications to our business processes or accounting procedures. No changes occurred during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting

DoubleDown was excluded from our assessment of internal control over financial reporting at March 31, 2012, because it was acquired in January 2012. DoubleDown represents approximately 8% of consolidated assets, 4% and 2%, respectively, of consolidated revenues as of and for the three months and six months, respectively, ended March 31, 2012.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a description of our material legal proceedings, see Note 11, which is incorporated by reference in response to this item.

Item 1A. Risk Factors

Set forth below and elsewhere in this Quarterly Report on Form 10-Q, and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. These risks include any material changes to and supersede the risks previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended September 30, 2011 and our Quarterly Report on Form 10-Q for the quarter ended December 31, 2011.

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

Demand for our products and services depends largely upon favorable conditions in the gaming industry, which is highly sensitive to players' disposable incomes and gaming activities. Discretionary spending on entertainment activities could further decline for reasons beyond our control, such as continued negative economic conditions, natural disasters, acts of war or terrorism, transportation disruptions or health epidemics. Any prolonged or significant decrease in consumer spending on entertainment activities could result in reduced play levels on our participation games, causing our cash flows and revenues from a large share of our recurring revenue products to decline. Unfavorable economic conditions have also resulted in a tightening in the credit markets, decreased liquidity in many financial markets, and significant volatility in the credit and equity markets.

A decline in the relative health of the gaming industry and the difficulty or inability of our customers to obtain adequate levels of capital to finance their ongoing operations reduces their resources available to purchase our products and services, which adversely affects our revenues. If we experience a significant unexpected decrease in demand for our products, we could also be required to increase our inventory obsolescence charges.

Furthermore, the extended economic downturn has impacted and could continue to impact the ability of our customers to make timely payments to us which could adversely affect our results of operations. We have, and may continue, to incur additional provisions for bad debt related to credit concerns on certain receivables, including in connection with contract financing we provide to customers, which has increased in amount in fiscal 2012 as a result of a competitive marketplace and a challenging economic recovery.

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

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

- licenses and/or permits
- findings of suitability
- documentation of qualifications, including evidence of financial stability
- other required approvals for companies who manufacture or distribute gaming equipment and services, including but not limited to approvals for new products
 - individual suitability of officers, directors, major shareholders and key employees

Any license, permit, approval or finding of suitability may be revoked, suspended or conditioned at any time. We may not be able to obtain or maintain all necessary registrations, licenses, permits or approvals, or could experience delays related to the licensing process which could adversely affect our operations and our ability to maintain key employees.

To expand into new jurisdictions, we may need to be licensed, obtain approvals of our products and/or seek licensure of our officers, directors, major stockholders, key employees or business partners. If we fail to seek, do not receive or receive a revocation of a license in a particular jurisdiction for our games and gaming machines, hardware or software, we cannot sell or place on a participation or leased basis our products in that jurisdiction. Any delays in obtaining or difficulty in maintaining regulatory approvals needed for expansion within existing markets or into new jurisdictions can negatively affect our opportunities for growth.

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

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

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

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

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

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

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

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

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

Obtaining space and favorable placement on casino gaming floors is also a competitive factor in our industry. In addition, the level of competition among equipment providers has increased significantly due to consolidation among casino operators and cutbacks in capital spending by casino operators resulting from the economic downturn and decreased player spend.

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

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

The gaming industry is characterized by dynamic customer demand and technological advances, both for land-based and online gaming products. As a result, we must continually introduce and successfully market new themes and technologies in order to remain competitive and effectively stimulate customer demand. To remain competitive, we have invested resources towards our research and development efforts to introduce new and innovative games with dynamic features to attract new customers and retain existing customers.

We intend to continue investing resources toward our research and development efforts. There is no assurance that our investments in research and development will lead to successful new technologies or timely new products. We invest heavily in product development in various disciplines from hardware, software, and firmware engineering to game design, video, multimedia, graphics, and sound. Because our newer products are generally more technologically sophisticated than those we have produced in the past, we must continually refine our production capabilities to meet the needs of our product innovation. If we cannot efficiently adapt our manufacturing infrastructure to meet the needs of our product innovations, or if we are unable to make upgrades in our production capacity in a timely manner, our business could be negatively impacted.

Our customers will accept a new product only if it is likely to increase operator profits more than competitors' products. The amount of operator profits primarily depends on consumer play levels, which are influenced by player demand for our product. There is no certainty that our new products will attain this market acceptance or that our

competitors will not more effectively anticipate or respond to changing customer preferences. In addition, any delays by us in introducing new products could negatively impact our operating results by providing an opportunity for our competitors to introduce new products and gain market share ahead of us.

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

We operate in many countries outside of the US and in tribal jurisdictions with sovereign immunity which subjects us to certain inherent risks. A significant portion of our revenues is derived from our International business segment. Developments such as noted below could adversely affect our financial condition and results of operations:

- social, political or economic instability
- additional costs of compliance with international laws or unexpected changes in regulatory requirements
 - the effects that evolving regulations regarding data privacy may have on our online operations
 - tariffs and other trade barriers
 - fluctuations in foreign exchange rates outside the US
- adverse changes in the creditworthiness of parties with whom we have significant receivables or forward currency exchange contracts
 - expropriation, nationalization and restrictions on repatriation of funds or assets
 - difficulty protecting our intellectual property
 - recessions in foreign economies
 - difficulties in maintaining foreign operations
 - changes in consumer tastes and trends
 - acts of war or terrorism
 - US government requirements for export

We may be unable to protect our IP.

A significant portion of our revenues is generated from products using certain IP rights and our operating results would be negatively impacted if we are unsuccessful in protecting these rights from infringement. In addition, some of our most popular games and features are based on trademarks, patents and other IP licensed from third parties. Our future success may depend upon our ability to obtain, retain and/or expand licenses for popular IP rights with reasonable terms in a competitive market. In the event that we cannot renew and/or expand existing licenses, we may be required to discontinue or limit our use of the games or gaming machines that use the licensed technology or bear the licensed marks.

Our success may depend in part on our ability to obtain trademark protection for the names or symbols under which we market our products and to obtain copyright protection and patent protection of our proprietary technologies, intellectual property and other game innovations. We may not be able to build and maintain goodwill in our trademarks or obtain trademark or patent protection, and there can be no assurance that any trademark, copyright or issued patent will provide competitive advantages for us or that our intellectual properties will not be successfully challenged or circumvented by competitors.

We also rely on trade secrets and proprietary know-how to protect certain proprietary knowledge and have entered into confidentiality agreements with our employees and independent contractors regarding our trade secrets and proprietary information. However, there can be no guarantees that our employees and consultants will not breach these agreements, and if these agreements are breached it is unlikely that the remedies available to us will be sufficient to compensate us for the damages suffered. Additionally, despite various confidentiality agreements and other trade secret protections, our trade secrets and proprietary know-how could become known to, or independently developed by, competitors.

We may be subject to claims of IP infringement or invalidity and adverse outcomes of litigation could unfavorably affect our operating results.

Competitors and others may infringe on our intellectual property rights, or may allege that we have infringed on theirs. Monitoring infringement and misappropriation of intellectual property can be difficult and expensive, and we may not be able to detect infringement or misappropriation of our proprietary rights. We may also incur significant litigation and other expenses protecting our intellectual property or defending our use of intellectual property, reducing our ability to bring new products to market in the future. These expenses could have an adverse effect on our future cash flows and results of operations. Our assessment of current IP litigation could change in light of the discovery of facts not presently known to us or determinations by judges, juries or others that do not agree with our evaluation of the possible liability or outcome of such litigation. If we are found to infringe on the rights of others we could be required to discontinue offering certain products or systems, to pay damages, or purchase a license to use the intellectual property in question from its owner. Litigation can also distract management from the day-to-day operations of the business. There can be no assurances that certain of our products, including those with currently pending patent applications, will not be determined to have infringed upon an existing third party patent.

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

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

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

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

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

Our success depends largely on recruiting and retaining talented employees. The market for qualified executives and highly skilled, technical workers is intensely competitive. The loss of key employees or an inability to hire a sufficient number of technical staff could limit our ability to develop successful products and cause delays in getting new products to market.

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

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

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

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

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

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

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

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

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

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

Our outstanding domestic credit facility subjects us to financial covenants which may limit our flexibility.

Our domestic credit facility subjects us to a number of financial covenants, including a minimum ratio of Adjusted EBITDA to interest expense minus interest on jackpot liabilities and a maximum ratio of Net Funded Debt to Adjusted EBITDA. Our failure or inability to comply with these covenants will cause an event of default that, if not cured, could cause the entire outstanding borrowings under our domestic credit facility, 5.5% Bonds, 7.5% Bonds and Notes to become immediately due and payable. In addition, our interest rate under the domestic credit facility can vary based on our public credit rating or our Net Funded Debt to Adjusted EBITDA ratio. Each of these measures may be adversely impacted by unfavorable economic conditions. The domestic credit facility also includes restrictions that may limit our flexibility in planning for, or reacting to, changes in our business and the industry.

Our outstanding Notes subject us to additional risks.

Our Notes issued in May 2009 contain a net settlement feature, which entitles holders to receive cash up to \$1,000 per Note and shares for any excess conversion value as determined by the respective governing indentures. Consequently, if a significant number of Notes are converted or redeemed, we would be required to make significant cash payments to the holders who convert or redeem the Notes.

In connection with the offering of the Notes, we entered into additional separate transactions for note hedges and warrant transactions. In connection with these transactions, the hedge counterparties and/or their respective affiliates may enter into various derivative transactions with respect to our common stock and may enter into or unwind various derivative transactions and/or purchase or sell our common stock in secondary market transactions prior to maturity of the Notes. These activities could have the effect of increasing or preventing a decline in, or having a negative effect on, the value of our common stock and could have the effect of increasing or preventing a decline in the value of our common stock during any conversion reference period related to a conversion of the Notes. The warrant transactions could separately have a dilutive effect from the issuance of our common stock pursuant to the warrants.

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

Changes in prime and/or treasury and agency interest rates during a given period cause fluctuations in jackpot expense largely due to the revaluation of future winner liabilities. When rates increase, jackpot liabilities are reduced as it costs less to fund the liability. However, when interest rates decline or remain low the value of the liability (and related jackpot expense) increases because the cost to fund the liability increases. Our results may continue to be negatively impacted by continuing low interest rates or further declines in interest rates, resulting in increased jackpot expense and a reduction of our investment income, which could limit or reduce our future profits.

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

As we introduce new products and transactions become increasingly complex, additional analysis and judgment is required to account for and recognize revenues in accordance with generally accepted accounting principles. Transactions may include multiple element arrangements, software components, unique new product offerings, such as our virtual currency games at our DoubleDown Casino®, and applicable accounting principles or regulatory product approval delays could further change the timing of revenue recognition and could adversely affect our financial results for any given period. Fluctuations may occur in our deferred revenues and reflect our continued shift toward more multiple element contracts that include systems and software.

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

We invest in and/or provide financing for expansion or construction of gaming locations and other business purposes, including locations abroad. Such investment and financing activities subject us to increased credit risk in certain regions, which could be exacerbated by current unfavorable economic conditions or other political or economic instability in those regions. We monitor our investments and financing activities to assess impairment on a quarterly basis.

We have in the past and may in the future incur losses on these types of investments and loans. Our results of operations, liquidity or financial position may be negatively impacted if we are unable to collect on loans or derive benefit from our investments.

Current environmental laws and regulations, or those enacted in the future, could result in additional liabilities and costs.

The manufacturing of our products may require the use of materials that are subject to a variety of environmental, health and safety laws and regulations (such as climate change legislation). Compliance with these laws could increase our costs and impact the availability of components required to manufacture our products. Violation of these laws may subject us to significant fines, penalties or disposal costs, which could negatively impact our results of operations, financial position or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

The purpose of our common stock repurchase plan, as amended on June 7, 2011 when our Board of Directors authorized repurchases of up to \$500.0 million, is to return value to our shareholders by reducing the number of shares outstanding. We may use open market or privately negotiated transactions, as well as Rule 10b5-1 trading plans, depending on market conditions and other factors. The authorization does not specify an expiration date.

	Total (a) Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as part of a Publicly Announced Plan	Approximate Dollar Value of Shares Still Available for Purchase Under the Plan
Periods of 2012 second quarter				
January 1 - January 28, 2012	0.1	\$ 16.03	0.1	\$ 443.2
January 29 - February 25, 2012	1.5	\$ 15.38	1.5	419.7
February 26 - March 31, 2012	1.3	\$ 15.42	1.3	\$ 400.0
Total	2.9	\$ 15.43	2.9	

(a) Includes 5,300 of restricted shares or units tendered by employees at fair value at vesting for tax withholding obligations

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6.

Exhibits

2.1*Unit Purchase Agreement, dated January 12, 2012, by and among IGT, Double Down Interactive LLC, the Sellers a party thereto, and Gregory Enell, as Sellers' Agent

31.1 Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Rule 13a – 14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Rule 13a – 14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

101.INS

XBRL Instance

101.SCH

XBRL Taxonomy Extension Schema

101.CAL

XBRL Taxonomy Extension Calculation

101.DEF

XBRL Taxonomy Extension Definition

101.LAB

XBRL Taxonomy Extension Labels

101.PRE

XBRL Taxonomy Extension Presentation

* Certain schedules and exhibits referenced in the Unit Purchase Agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

Signatures

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

Date: May 9, 2012

INTERNATIONAL GAME TECHNOLOGY

By: /s/ John Vandemore

John Vandemore
Chief Financial Officer and Treasurer
(Principal Financial Officer)