

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
SEC Accession No. **0000353944-94-000010**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### INTERNATIONAL GAME TECHNOLOGY

CIK: **353944** | IRS No.: **880173041** | State of Incorporation: **NV** | Fiscal Year End: **0930**  
Type: **10-Q** | Act: **34** | File No.: **001-10684** | Film No.: **94528004**  
SIC: **3990** Miscellaneous manufacturing industries

Business Address  
520 S ROCK BLVD  
RENO NV 89502  
7026880100

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ending March 31, 1994

OR

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

For the transition period from to

For Quarter Ended March 31, 1994 Commission File Number 001-10684

INTERNATIONAL GAME TECHNOLOGY  
(Exact name of registrant as specified in charter)

Nevada  
(State of Incorporation)

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

5270 Neil Road, Reno, Nevada 89510  
(Address of principal executive offices)

Registrant's telephone number, including area code (702) 688-0100

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.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES  
FORM 10-Q

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (the "SEC"), but omit certain information and footnote disclosures necessary to present the statements in accordance with generally accepted accounting principles.

These financial statements should be read in conjunction with the financial statements, accounting policies and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1993. Management believes that the disclosures are adequate to make the information presented herein not misleading.

Organization

International Game Technology (the "Company") was incorporated in December 1980 to acquire the gaming licensee and operating entity, IGT (recently renamed IGT-North America), and facilitate the Company's initial public offering. In addition to its 100% ownership of IGT-North America, the Company directly or indirectly owns 100% of IGT-International ("IGT-International"), 100% of IGT-Australia, Pty. Ltd. ("IGT-Australia"), 100% of IGT-Europe b.v. ("IGT-Europe"), 99.75% of IGT-Iceland Ltd. ("IGT-Iceland"), 100% of IGT-Japan k.k. ("IGT-Japan") and approximately 11% of Radica Games Limited ("Radica"). In December 1992 the Company sold its interest in its riverboat partnerships and on September 30, 1993 sold its interest in CMS-International ("CMS"). See "Discontinued Operations."

IGT-North America is the largest manufacturer of computerized casino gaming products and proprietary systems in the world. The Company believes it manufactures the broadest range of microprocessor-based gaming machines available. The Company also develops and manufactures "SMART" systems which monitor slot machine play and track player activity. In addition to gaming product sales and leases, the Company has developed and sells computerized linked proprietary systems to monitor video gaming terminals and has developed specialized video gaming terminals for lotteries and other applications. IGT-North America also develops and operates

proprietary software linked progressive systems. The Company derives revenues related to the operations of these systems as well as collects license and franchise fees for the use of the systems.

IGT-International was established in September 1993 to oversee all operations outside of North America by the Company's foreign subsidiaries. IGT-International also conducts sales either directly or through distributors in countries not served by the Company's foreign subsidiaries.

IGT-Australia, located in Sydney, Australia, manufactures microprocessor-based gaming products and proprietary systems, and performs engineering, manufacturing, sales and marketing and distribution operations for the Australian markets as well as other gaming jurisdictions in the Southern Hemisphere and Pacific Rim.

Page 3

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

#### INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES FORM 10-Q

IGT-Europe was established in The Netherlands in February 1992 to distribute and market gaming products in Eastern and Western Europe and Africa. Prior to providing direct sales, the Company sold its products in these markets through a distributor.

IGT-Iceland was established in September 1993 to provide system software, machines, equipment and technical assistance to support Iceland's video lottery operations.

IGT-Japan was established in July 1990, and in November 1992 opened an office in Tokyo, Japan. On April 16, 1993, IGT-Japan was approved to supply Pachisuro gaming machines to the Japanese market, and the Company began delivery of these machines during the third quarter of fiscal 1993.

Radica designs, develops, manufactures and distributes a variety of non-gaming casino theme games. Radica maintains production facilities in China. See Note 8 to the Consolidated Financial Statements for further discussion.

#### Discontinued Operations

During fiscal 1993, the Company divested its investments in casino operations through the sale of its interest in the President Riverboat Casinos, Inc. ("PRC") and CMS. These dispositions were made as part of the Company's strategy to focus on its core businesses of manufacturing machines and the development of proprietary systems software.

Iowa Riverboat Corporation ("IRC"), a wholly-owned subsidiary of the Company, established in March 1990, was a 40% partner in an Iowa partnership that owned and operated the President Riverboat Casino and the Blackhawk Hotel in Davenport, Iowa. International Acceptance Corporation ("IAC"), also a wholly-owned subsidiary of the Company, owned 45% of a riverboat excursion operation and the permanently docked Admiral riverboat in St. Louis, Missouri. In December 1992, the Company contributed the assets of IRC and IAC to PRC in exchange for 1,671,429 shares of PRC common stock. These shares were subsequently sold to the public as part of an initial public offering of PRC common stock on December 17, 1992 (see Note 5 to the Consolidated Financial Statements).

CMS, established in August 1988, operated casinos and hotel/casinos for the Company including the Silver Club hotel and casino and The Treasury Club casino in Sparks, Nevada, the El Capitan Club in Hawthorne, Nevada and the King's Casino on the island of Antigua in the Caribbean. Effective September 30, 1993, the Company sold its ownership interest in CMS.

The consolidated financial statements include the accounts of the Company and all its majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

Page 4  
<TABLE>

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

| (Dollars in thousands,<br>except per share amounts) | THREE MONTHS ENDED |          | SIX MONTHS ENDED |           |
|---|--------------------|----------|------------------|-----------|
|   | MARCH 31,          |          | MARCH 31,        |           |
|   | 1994               | 1993     | 1994             | 1993      |
| REVENUES:   |                    |          |                  |           |
| <S>   | <C>                | <C>      | <C>              | <C>       |
| Product sales.....                                  | \$127,026          | \$67,024 | \$240,445        | \$122,072 |
| Gaming operations.....                              | 37,511             | 31,698   | 73,859           | 63,913    |
| Total revenues.....                                 | 164,537            | 98,722   | 314,304          | 185,985   |
| COSTS AND EXPENSES:                                 |                    |          |                  |           |
| Cost of product sales.....                          | 66,677             | 33,509   | 127,158          | 61,304    |
| Gaming operations.....                              | 16,475             | 15,010   | 33,411           | 27,748    |
| Selling, general and<br>administrative.....         | 23,013             | 12,491   | 39,837           | 24,412    |
| Depreciation and<br>amortization.....               | 4,686              | 4,835    | 9,245            | 9,864     |
| Research and development...                         | 5,262              | 4,256    | 9,138            | 7,884     |
| Provision for bad debts....                         | 3,241              | 1,153    | 4,807            | 2,114     |
| Total costs and expenses.                           | 119,354            | 71,254   | 223,596          | 133,326   |

|  |           |          |           |           |
|--|-----------|----------|-----------|-----------|
| INCOME FROM OPERATIONS.....  | 45,183    | 27,468   | 90,708    | 52,659    |
| OTHER INCOME (EXPENSE):  |           |          |           |           |
| Interest income .....  | 7,103     | 7,006    | 13,838    | 12,431    |
| Interest expense.....  | ( 2,901)  | ( 3,342) | ( 5,754)  | ( 6,368)  |
| Gain on the sale of assets.  | 1,611     | 710      | 2,088     | 6,631     |
| Other.....   | ( 164)    | ( 813)   | ( 871)    | 498       |
| Other income net.....  | 5,649     | 3,561    | 9,301     | 13,192    |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.                   | 50,832    | 31,029   | 100,009   | 65,851    |
| PROVISION FOR INCOME TAXES...  | 19,418    | 12,151   | 38,204    | 25,793    |
| INCOME FROM CONTINUING OPERATIONS.....                                   | 31,414    | 18,878   | 61,805    | 40,058    |
| DISCONTINUED OPERATIONS:   |           |          |           |           |
| Income (loss) from operations, including tax benefit of \$17 and \$23... | -         | ( 139)   | -         | 217       |
| Gain on disposition, net of taxes of \$9,573.....                        | -         | -        | -         | 14,013    |
| Income from discontinued operations.....                                 | -         | ( 139)   | -         | 14,230    |
| NET INCOME.....  | \$ 31,414 | \$18,739 | \$ 61,805 | \$ 54,288 |

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

(Continued)

Page 5

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

<TABLE>

| (Shares in thousands)                    | THREE MONTHS ENDED |         | SIX MONTHS ENDED |         |
|--|--------------------|---------|------------------|---------|
|  | 1994               | 1993    | 1994             | 1993    |
| PRIMARY EARNINGS PER SHARE:              |                    |         |                  |         |
| <S>                                      | <C>                | <C>     | <C>              | <C>     |
| Income from continuing operations.....   | \$ 0.24            | \$ 0.15 | \$ 0.48          | \$ 0.32 |
| Income from discontinued operations..... | -                  | -       | -                | 0.12    |

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| NET INCOME.....   | \$ 0.24 | \$ 0.15 | \$ 0.48 | \$ 0.44 |
| FULLY DILUTED EARNINGS PER SHARE:                                     |         |         |         |         |
| Income from continuing operations.....                                | \$ 0.23 | \$ 0.15 | \$ 0.46 | \$ 0.31 |
| Income from discontinued operations.....                              | -       | -       | -       | 0.10    |
| NET INCOME.....   | \$ 0.23 | \$ 0.15 | \$ 0.46 | \$ 0.41 |
| WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING..... | 129,959 | 122,557 | 129,778 | 123,634 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING ASSUMING FULL DILUTION.... | 136,634 | 136,427 | 136,593 | 138,137 |

</TABLE>

Earnings per share are calculated on the basis of the weighted average number of common and, if dilutive, common equivalent share outstanding.

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

(Continued)

Page 6

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
ASSETS

<TABLE>

(Dollars in thousands)

MARCH 31,  
1994

SEPT. 30,  
1993

(Unaudited)

<S>

<C>

<C>

CURRENT ASSETS:

|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents.....   | \$ 48,864 | \$ 85,346 |
| Short-term investments, at cost (market value of \$160,421 and \$147,123)..... | 151,223   | 131,994   |
| Accounts receivable, net of allowances   |           |           |

|   |               |               |
|---|---------------|---------------|
| for doubtful accounts of \$9,946<br>and \$7,935.....  | 100,155       | 81,857        |
| Current maturities of long-term notes<br>and contracts receivable, net of<br>allowances.....      | 70,021        | 60,673        |
| Inventories:  |               |               |
| Raw materials.....  | 51,566        | 40,225        |
| Work-in-process.....  | 8,555         | 4,998         |
| Finished goods.....   | 37,807        | 29,855        |
| Total inventories.....  | 97,928        | 75,078        |
| Deferred income taxes.....  | 12,152        | 10,932        |
| Prepaid expenses and other.....   | 15,673        | 14,255        |
| <br>Total current assets.....   | <br>496,016   | <br>460,135   |
| <br>LONG-TERM NOTES AND CONTRACTS RECEIVABLE,<br>net of allowances and current<br>maturities..... | <br>52,738    | <br>46,908    |
| <br>PROPERTY, PLANT AND EQUIPMENT, at cost:   |               |               |
| Land.....   | 1,990         | 989           |
| Buildings .....   | 4,213         | 4,213         |
| Gaming and casino operations equipment...   | 45,672        | 39,375        |
| Manufacturing machinery and equipment....   | 54,498        | 43,456        |
| Leasehold improvements.....   | 6,787         | 5,529         |
|   | 113,160       | 93,562        |
| Less accumulated depreciation and<br>amortization.....  | ( 51,340)     | ( 42,689)     |
| <br>Property, plant and equipment, net...   | <br>61,820    | <br>50,873    |
| <br>INVESTMENTS TO FUND LIABILITIES<br>TO JACKPOT WINNERS.....                                    | <br>104,001   | <br>82,266    |
| <br>OTHER ASSETS.....   | <br>20,725    | <br>6,411     |
| <br>TOTAL ASSETS.....   | <br>\$735,300 | <br>\$646,593 |

</TABLE>

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

Page 7

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>

(Dollars in thousands)

MARCH 31,  
1994  
(Unaudited)

SEPT. 30,  
1993

<S>

<C>

<C>

CURRENT LIABILITIES:

|  |            |            |
|--|------------|------------|
| Current maturities of long-term notes payable and capital lease obligations..... | \$ 474     | \$ 462     |
| Accounts payable.....  | 23,412     | 22,620     |
| Jackpot liabilities.....   | 15,192     | 11,882     |
| Accrued employee benefit plan liabilities.....                                   | 8,416      | 19,651     |
| Accrued interest payable.....  | 931        | 1,352      |
| Accrued vacation liability.....  | 4,972      | 3,771      |
| Accrued and deferred income taxes.....   | 1,913      | 11,649     |
| Other accrued liabilities.....   | 31,545     | 12,362     |
| <br>Total current liabilities.....   | <br>86,855 | <br>83,749 |

LONG-TERM NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS, net of current maturities..

443 617

CONVERTIBLE SUBORDINATED NOTES PAYABLE.. 42,919 59,998

LONG-TERM JACKPOT LIABILITIES..... 124,599 106,476

DEFERRED INCOME TAXES..... 13,079 17,187

OTHER LIABILITIES..... 19 17

Total liabilities..... 267,914 268,044

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

|  |               |               |
|--|---------------|---------------|
| Common stock, \$.000625 par value;<br>320,000,000 shares authorized;<br>142,681,698 and 138,938,605 shares<br>issued ..... | 89            | 87            |
| Additional paid-in capital.....  | 183,516       | 146,869       |
| Retained earnings.....   | 313,844       | 259,125       |
| Treasury stock; 14,157,246 and<br>14,071,460 shares at cost.....   | ( 30,063)     | ( 27,532)     |
| <br>Total stockholders' equity.....  | <br>467,386   | <br>378,549   |
| <br>Total liabilities and<br>stockholders' equity.....   | <br>\$735,300 | <br>\$646,593 |

</TABLE>

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

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

<TABLE>

(Dollars in thousands)

|   | SIX MONTHS ENDED<br>MARCH 31, |           |
|---|-------------------------------|-----------|
|   | 1994                          | 1993      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                               |           |
| <S>   | <C>                           | <C>       |
| NET INCOME .....  | \$61,805                      | \$54,288  |
| Adjustments to reconcile net income to net cash provided by operating activities:                     |                               |           |
| Depreciation and amortization.....  | 9,245                         | 9,864     |
| Amortization of long-term debt discount and offering costs.....                                       | 410                           | 898       |
| Provision for bad debts.....  | 4,807                         | 2,113     |
| Gain on sale of assets.....   | ( 2,088)                      | ( 6,631)  |
| Gain on sale of discontinued operations.....  | -                             | ( 14,013) |
| Donated common stock.....   | 500                           | 250       |
| (Increase) decrease in assets:  |                               |           |
| Receivables .....   | ( 38,287)                     | ( 23,257) |
| Inventories.....  | ( 22,850)                     | ( 6,215)  |
| Prepaid expenses and other.....   | 789                           | ( 58)     |
| Other assets.....   | ( 4,434)                      | 4,425     |
| Increase (decrease) in liabilities:   |                               |           |
| Accounts payable and accrued liabilities.....   | 9,428                         | ( 13,194) |
| Accrued and deferred income taxes payable, net of tax benefit of stock option and purchase plans..... | ( 10,388)                     | 1,584     |
| Other.....  | 7                             | ( 145)    |
| Total adjustments.....  | ( 52,861)                     | ( 44,379) |
| Net cash provided by operating activities.....  | 8,944                         | 9,909     |

</TABLE>

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

(Continued)

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Continued from previous page)  
(Unaudited)

&lt;TABLE&gt;

(Dollars in thousands)

|   | SIX MONTHS ENDED<br>MARCH 31, |                  |
|---|-------------------------------|------------------|
|   | 1994                          | 1993             |
|   | <C>                           | <C>              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                          |                               |                  |
| Investment in property, plant and equipment.....                      | (\$ 22,905)                   | (\$ 17,641)      |
| Proceeds from sale of property, plant and equipment.....              | 1,950                         | 3,990            |
| Purchase of short term investments.....                               | ( 148,302)                    | ( 74,159)        |
| Proceeds from sale of short term investments.....                     | 131,801                       | 37,395           |
| Proceeds from investments to fund liabilities to jackpot winners..... | 7,979                         | 5,653            |
| Purchase of investments to fund liabilities to jackpot winners.....   | ( 31,920)                     | ( 25,329)        |
| Proceeds from sale of discontinued operations.....                    | -                             | 28,749           |
| Net cash used in investing activities.                                | ( 61,397)                     | ( 41,342)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                          |                               |                  |
| Principal payments on debt.....                                       | ( 161)                        | ( 1,110)         |
| Payments on liabilities to jackpot winners.....                       | ( 7,979)                      | ( 5,653)         |
| Collections from systems to fund liabilities to jackpot winners.....  | 29,412                        | 21,249           |
| Proceeds from stock options exercised.....                            | 655                           | 2,656            |
| Proceeds from employee stock purchases..                              | 1,034                         | 869              |
| Payments of cash dividend.....  | ( 7,683)                      | -                |
| Proceeds of long-term debt.....                                       | -                             | 5                |
| Foreign currency exchange gain .....                                  | 693                           | 197              |
| Net cash provided by financing activities.....                        | 15,971                        | 18,213           |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS.....</b>                 | <b>( 36,482)</b>              | <b>( 13,220)</b> |
| <b>CASH PROVIDED BY DISCONTINUED OPERATIONS..</b>                     | <b>-</b>                      | <b>12,487</b>    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....</b>          | <b>85,346</b>                 | <b>69,159</b>    |

|   |           |           |
|---|-----------|-----------|
| CASH AND CASH EQUIVALENTS AT END OF PERIOD..... | \$ 48,864 | \$ 68,426 |
|---|-----------|-----------|

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

Page 10

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Notes and Contracts Receivable

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

| (Dollars in thousands)                       | March 31,<br>1994<br>(Unaudited) | September 30,<br>1993 |
|--|----------------------------------|-----------------------|
| Allowances for doubtful notes and contracts: | <C>                              | <C>                   |
| Current.....                                 | \$4,750                          | \$5,588               |
| Long-term.....                               | 2,554                            | 3,363                 |
|  | \$7,304                          | \$8,951               |

2. Lines of Credit

As of December 31, 1993, IGT-North America had a \$7.5 million unsecured bank line of credit with various interest rate options available to the Company. The line of credit is used for the purpose of facilitating standby letters of credit, and the Company is charged a nominal fee on amounts used against the line as security for letters of credit. Funds available under this line are reduced by any amounts used as security for letters of credit. At March 31, 1994, \$3,779,000 was available under this line of credit. As of April 1, 1994, the amount of the line of credit was decreased to \$5 million resulting in an availability of \$1,279,000 as of that date.

IGT-Australia had a \$440,000 (Australian) bank line of credit available as of March 31, 1994. Interest is paid at the lender's reference rate plus 1%. This line is secured by equitable mortgages, and has a provision for review and renewal annually in May. At March 31, 1994, no funds were drawn under this line.

The Company is required to comply, and is in compliance, with certain covenants contained in the IGT-North America line of credit agreement which, among other things, limit financial commitments the Company may make

without written consent of the lender and require the maintenance of certain financial ratios, minimum working capital and net worth of the Company.

### 3. Debt Offering

In May 1991, the Company completed a \$115,000,000 public offering of 5-1/2% Convertible Subordinated Notes (the "Notes") maturing June 1, 2001. The Notes were issued at a price of 80.055% of the principal amount due at maturity, representing an original issue discount of 19.945% from the principal amount payable at maturity. Semi-annual interest payments at 5-1/2% along with the original issue discount represent a yield of 8.5% per annum. Net proceeds from the issue and sale of the Notes were \$89,426,800.

Page 11

## INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the terms of the Notes, the Company has called for redemption on June 1, 1994 all of the outstanding Notes. As of March 31, 1994, \$50.9 million of principal amount was outstanding. The redemption price is 84.414% of principal amount due at maturity. An interest payment of \$27.50 per \$1,000 principal amount of Notes will be paid on June 1, 1994 to Note holders of record on May 15, 1994. At the option of the holder, the Notes are convertible into common stock of the Company at a conversion rate of 129.384 shares per each \$1,000 principal amount. This conversion option expires on May 31, 1994.

The conversion option as stated above has been available since the issuance of the Notes. During the six months ended March 31, 1994 and 1993, notes with a face amount of \$21,317,000 and \$22,097,000 were converted to 2,758,058 and 2,858,988 shares of the Company's common stock, respectively.

### 4. Income Taxes

The provision for income taxes is computed on pre-tax income reported in the financial statements. 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. The Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," effective as of October 1, 1992. There was no material effect on the Company's financial statements due to the adoption of this statement.

## 5. Discontinued Operations

In connection with the Company's focus on gaming machine manufacture and proprietary software systems development, the Company divested its investments in casino operations during fiscal 1993 through the sale of its interest in CMS and President Riverboat Casinos, Inc. ("PRC"). The disposition of these investments has been accounted for as discontinued operations. The revenues from these operations totaled \$7,851,000 and \$16,600,000 for the quarter and six months ended March 31, 1993, respectively. The separate sales transactions of these investments are described below.

### Riverboat Operations

During December 1992, the Company transferred 100% of its ownership interest in three riverboat partnerships to PRC. In exchange for the transfer of its ownership interests, the Company received 1,671,429 shares of PRC common stock representing approximately 32% ownership of PRC.

The Company, under a selling agreement with the principal stockholders of PRC, offered all of its 1,671,429 shares of PRC common stock as a selling shareholder in the Initial Public Offering ("IPO") of PRC, effective December 17, 1992. The Company received proceeds from the IPO of \$28.7 million and recognized a pre-tax gain of \$23.6 million on the sale. PRC additionally repaid \$16.2 million in outstanding notes to the Company, plus all accrued interest.

Page 12

## INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### CMS International

Effective September 30, 1993, the Company sold its equity ownership interest in CMS to Summit Casinos-Nevada, Inc., ("Summit"), whose owners include senior management of CMS. The sale consisted of \$750,000 in cash for the Company's ownership of CMS's preferred stock and \$250,000 in cash and a note of \$2,043,529 for CMS's common stock. Additionally, the Company acquired a stock purchase warrant entitling the Company to purchase 4.84% of CMS at a per share price approximately equal to the book value of CMS ("the CMS Warrant"). The CMS Warrant, which expires on the earlier of September 30, 2003 or the closing of an underwritten public offering of CMS, is exchangeable for a Warrant to purchase shares of common stock of any other affiliate of Summit which proposes an underwritten public

offering of its common stock.

The Company recognized a pre-tax loss of approximately \$2.0 million on the sale and will remain as guarantor on certain indebtedness of CMS, which had at March 31, 1994 an aggregate balance of \$18.6 million. The notes that have been guaranteed are also collateralized by the respective casino properties. Summit has agreed to indemnify and hold the Company harmless against any liability arising under these guarantees. Management believes the likelihood of losses relating to these guarantees is remote.

The composition of income from discontinued operations for the quarter ended March 31, 1993 is as follows:

<TABLE>

| (Dollars in Thousands)                                | Riverboat<br>Operations | CMS<br>Int'l | Total    |
|---|-------------------------|--------------|----------|
| <S>   | <C>                     | <C>          | <C>      |
| Loss from operations.....                             | (\$ 120)                | (\$ 36)      | (\$ 156) |
| Gain on disposal.....                                 | -                       | -            | -        |
| Loss on discontinued<br>operations before taxes.....  | (\$ 120)                | (\$ 36)      | (\$ 156) |
| Income tax benefit.....                               | -                       | 17           | 17       |
| Loss on discontinued operations,<br>net of taxes..... | (\$ 120)                | (\$ 19)      | (\$ 139) |

</TABLE>

The composition of income from discontinued operations for the six months ended March 31, 1993 is as follows:

<TABLE>

| (Dollars in Thousands)   | Riverboat<br>Operations | CMS<br>Int'l | Total    |
|--|-------------------------|--------------|----------|
| <S>  | <C>                     | <C>          | <C>      |
| Income (loss) from operations...                               | \$ 245                  | (\$ 51)      | \$ 194   |
| Gain on disposal.....  | 23,586                  | -            | 23,586   |
| Income (loss) on discontinued<br>operations before taxes.....  | \$23,831                | ( 51)        | 23,780   |
| Income tax (provision)<br>benefit.....                         | ( 9,573)                | 23           | ( 9,550) |
| Income (loss) on discontinued<br>operations, net of taxes..... | \$14,258                | (\$ 28)      | \$14,230 |

</TABLE>

6. Disposition of Other Operations

The route and Megapoker operations and Keno systems business were sold during fiscal 1992 and 1993. The Company's route and Megapoker operations were sold to Jackpot Enterprises, a Nevada corporation in August and November of 1992, respectively. The route operations included all the route equipment and operating contracts for the Nevada participation locations involving approximately 1,380 gaming machines in 160 locations. This sale resulted in a net loss of \$893,000. The Megapoker sale included all gaming services and associated equipment used on the Megapoker route along with licenses for all Megapoker software, trademarks, and tradenames. A net gain of \$242,000 was realized on this sale.

In the first quarter of 1993, the Company completed the sale of its computerized Keno system business to Imagineering systems, Inc. of Reno, Nevada. All development, manufacturing, sales and service functions for the Keno systems were included in the sale. The sale did not have a material effect on the Company's consolidated financial statements.

7. Concentrations of Credit Risk

The financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts, contracts, and notes receivable. The Company 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. The Company also distributes a portion of its products through third party distributors resulting in significant distributor receivables. At March 31, 1994 accounts, contracts, and notes receivable by region as a percentage of total receivables are as follows:

<TABLE>

| Regions  |       |
|--|-------|
| <S>  | <C>   |
| Riverboats (greater Mississippi River area)..... | 42.2% |
| Nevada.....                                      | 25.0% |
| Colorado.....                                    | 8.0%  |
| Louisiana (distributor).....                     | 5.1%  |

</TABLE>

8. Acquisition of Investment in Radica

During February 1994, the Company purchased 11.2% of Radica Games Limited ("Radica") for cash of \$5,850,000 and 374,436 shares of the Company's common stock, valued upon issuance at \$10,250,000. Radica is a Hong Kong corporation which designs, develops, manufactures, and

distributes non-gaming casino theme games. Radica maintains production facilities in China. The Company believes this investment will provide manufacturing capacity for the international market and enhance its business knowledge of the China market.

Page 14

INTERNATIONAL GAME TECHNOLOGY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Supplemental Statement of Cash Flows Information

Certain noncash investing and financing activities are not reflected in the consolidated statements of cash flows. The Company incurred capital lease obligations to obtain property, plant and equipment in the six months ended March 31, 1994 and 1993 of zero and \$38,000, respectively. The Company had additions to long term notes payable during the six months ended March 31, 1994 and 1993 of zero and \$5,000, respectively.

Payments of interest for the six months ended March 31, 1994 and 1993 were \$5,765,000 and \$4,100,000, respectively. Payments for income taxes for the first six months of fiscal 1994 and 1993 were \$47,940,000 and \$21,500,000, respectively.

During the six months ended March 31, 1994, the Company purchased a portion of Radica Games Limited for cash of \$5,850,000 and 374,436 shares of the Company's common stock, valued upon issuance at \$10,250,000.

During the six months ended March 31, 1994 and 1993, notes with a face amount of \$21,317,000 and \$22,097,000 were converted to 2,758,058 and 2,858,988 shares of the Company's common stock, respectively.

On February 22, 1994, the Board of Directors declared a quarterly cash dividend of \$.03 per share. The dividend is payable on June 1, 1994 to shareholders of record at the close of business on May 1, 1994. At March 31, 1994, the Company had accrued \$3,856,000 for the payment of this dividend.

Page 15

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

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 1994  
COMPARED TO THE THREE MONTHS ENDED MARCH 31, 1993

Net income from continuing operations grew to \$31.4 million or \$.23 per fully diluted share in the second quarter of fiscal 1994. This

represents a 66% increase in net income and a 53% increase in per share earnings in comparison to the same period in fiscal 1993. The Company's continued net income gains were primarily driven by increased product sales.

#### Revenues and Cost of Sales

Product sales for the quarter increased approximately 90% to \$127 million in comparison to \$67 million reported in the second quarter of 1993. Demand for the Company's products was strongest in the riverboat and Nevada markets. Unit sales to riverboat gaming properties grew 227% over the prior quarter with the majority of the current quarter sales to properties operating in Mississippi and Louisiana. Nevada continues to provide a strong market for the Company's gaming products. Sales were influenced primarily by replacement demand in the second quarter. As large, new casinos open and other properties expand, competitive pressure accelerates the replacement of existing machines. Demand is anticipated to remain strong as planned expansions open and replacement continues. The Company's imbedded bill acceptor product has proven popular, accounting for approximately 70% of total machine shipments during the quarter.

The Company also sold approximately 1,100 machines to the first new casino in Ontario, Canada, representing 65% of the machines installed. The casino is operated by the strategic alliance of Caesars World, Inc., Circus Circus Enterprises, Inc., and Hilton Hotels.

Gaming operations revenue increased approximately 18% to \$37.5 million during the three months ended March 31, 1994 compared to \$31.7 million during the same period last year. This increase is a result of the introduction of new systems in Mississippi and Colorado as well as a larger installed machine base in Nevada. The growth in these revenues was partially offset by reduced Colorado lease revenues due to leases being converted to sales.

The gross margin on product sales, 47.5% and 50% for the quarter ended March 31, 1994 and 1993, respectively, was lower primarily due to discounts associated with high volume sales to several customers and costs of starting up additional production facilities with new, inexperienced personnel. The gross margin on gaming operations improved due to recent increases in interest rates which lowered the cost of funding jackpot annuity payments associated with the Company's linked progressive systems.

#### Expenses

Selling, general, and administrative costs totaled \$23 million for the quarter ended March 31, 1994 compared to \$12.5 million for the same period last year. This increase is a result of higher employee levels, continued international selling efforts and market development costs. Legal compliance costs associated with selling gaming machines in new jurisdictions also contributed to this increase. Depreciation and amortization decreased slightly compared to last year due to a decrease in

the number of leased machines in Colorado as many of these leases were converted to sales. This decline was partially offset by the depreciation recorded on the office buildings acquired in September 1993.

Page 16

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

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 1994  
COMPARED TO THE THREE MONTHS ENDED MARCH 31, 1993

Research and development expense grew 24% to \$5.3 million in the second quarter as a result of added engineering personnel. The Company continues to invest resources in developing technology for its products. Bad debt expense increased \$2 million in comparison to the prior year in response to increased sales and receivables balances resulting from higher sales.

Other Income and Expense

Interest expense decreased \$441,000 to \$2.9 million for the second quarter of 1994. This decline was primarily due to interest savings from the conversion of \$64 million of the Company's convertible subordinated notes to common stock. This savings was partially offset by increased interest expense on jackpot liabilities. Both interest income on jackpot investments and interest expense on jackpot liabilities have increased in response to the overall growth in play and jackpots in connection with the Company's linked progressive systems. The increase to interest income resulting from jackpot investments was reduced by lower investment yields on the remainder of the portfolio.

Discontinued Operations

During the second quarter of last year, the Company realized a loss from discontinued casino operations of \$139,000. See Note 5 of the Consolidated Financial Statements regarding discontinued operations.

Page 17

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

RESULTS OF OPERATIONS - SIX MONTHS ENDED MARCH 31, 1994  
COMPARED TO THE SIX MONTHS ENDED MARCH 31, 1993

Net income from continuing operations for the six months ended March

31, 1994 was \$61.8 million or \$.46 per fully diluted share, representing a 54% and 48% increase over the comparable prior year period. The primary factor for this growth was an approximate 97% increase in product sales and a 16% increase in game operations revenue over the prior year.

#### Revenues and Cost of Sales

Product sales revenue totaled \$240.4 million and \$122 million in the six months ended March 31, 1994 and 1993, respectively. This growth was driven by both the emerging Midwest riverboat market and the traditional Nevada market. Sales to the riverboat markets were strong this year primarily in Mississippi and Louisiana. The Company has secured a large percentage of the sales to these new gaming areas. The riverboat market is expected to provide continued demand as new jurisdictions open and expand.

Nevada also provided strong demand during the period through new casino openings and replacement of machines at existing casinos. New Nevada casino properties included the Luxor, MGM Grand, and Treasure Island Casinos. The Company supplied over 80% of the gaming machines installed at these locations. Replacement of existing machines also grew in response to the competitive pressures of the new, large casinos and due to the popularity of the company's imbedded bill acceptor product. Additional expansions and replacements are anticipated as the Nevada market maintains its dominance as a gaming destination.

Gaming operations revenues were \$73.8 million in the first half of fiscal 1994 compared to \$63.9 million for the same period in fiscal 1993. This increase was influenced by the introduction of new systems in Mississippi and Colorado and a greater number of machines operating on the existing Nevada systems. The additional revenues from these systems were offset by decreasing lease revenues in Colorado, due to the conversion of leases into sales. The success of the Company's linked progressive systems is expected to continue into the future through expansion into new riverboat and Indian gaming jurisdictions.

The gross margin on product sales was 47% and 50% for the six months ended March 31, 1994 and 1993, respectively. This decrease is primarily due to discounts on high volume sales to several customers in Nevada and the riverboat markets and costs associated with the addition of new facilities and personnel needed to meet current and future manufacturing demands. The gross margin on gaming operations also decreased slightly due to overall lower interest rates which increased the costs of the annuity jackpot payments associated with the Company's linked progressive systems.

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

RESULTS OF OPERATIONS - SIX MONTHS ENDED MARCH 31, 1994  
COMPARED TO THE SIX MONTHS ENDED MARCH 31, 1993

Expenses

Selling, general and administrative costs increased to \$39.8 million in comparison to \$24.4 million in the prior year. This increase reflects the added costs of additional employees and expenses associated with market development in potential gaming areas, especially in the international markets. Costs associated with licensing in new jurisdictions has also contributed to this increase. Depreciation and amortization has decreased to \$9.2 million from \$9.9 million in fiscal 1993. The decrease is due to fewer machine leases in Colorado, where many of the leases have been converted to sales. This decrease was partially offset by depreciation recorded on the office buildings purchased by the Company in September of 1993.

Research and development expenses, totaling \$9.2 million for the period, have increased \$1.3 million in comparison to the first half of 1993. This growth is primarily due to additional engineering personnel to support increased product development. Due to the growth in product sales and corresponding increase in receivables, bad debt expense increased to \$4.8 million compared to \$2.1 million recorded in the first six months of the prior year.

Other Income and Expense

The increase in play and jackpots associated with the Company's linked progressive systems contributed to the increase in interest income recorded on investments to fund jackpots and interest expense on the outstanding jackpot liabilities. This increase in interest expense was more than offset by interest savings resulting from the conversion of \$64 million of the Company's convertible notes to common stock.

Gains on the sales of assets in both periods relate to gains realized on the sales of certain securities held in the Company's investment portfolio.

Discontinued Operations

During the six months ended March 31, 1993, the Company realized a gain of \$14 million from the sale of its investment in riverboat casino

operations as well as a loss from discontinued casino operations of \$217,000. See Note 5 of the Consolidated Financial Statements regarding discontinued operations.

Page 19

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

CAPITAL RESOURCES AND LIQUIDITY

Working Capital and Cash Flow

Working capital increased \$32.8 million to \$409 million during the six months ended March 31, 1994. This growth is primarily due to the following fluctuations: Accounts receivable rose \$18.3 million as a result of increased sales. Inventory was \$22.9 million greater than at September 30, 1993 in anticipation of future increased product demand. Accrued employee benefit plan liabilities declined \$11.2 million as a result of payment of the incentives. Accrued income taxes also decreased, \$9.7 million, due to payment of the liability. Customer deposits on future sales resulted in a \$19.2 million increase in other accrued liabilities.

During the six month period, the Company generated cash from operations and financing activities of \$8.9 million and \$16 million, respectively. Cash provided by operating activities during the period was reduced by significant growth in receivables and inventories in connection with increased sales. This increase in cash was offset by cash used in investing activities of \$61.4 million, primarily associated with purchases of short term investments, fixed assets, and investments to fund jackpot liabilities.

Lines of Credit

As of March 31, 1994, IGT-North America had a \$7.5 million unsecured bank line of credit with various interest rate options available to the Company. The line of credit is used for the purpose of facilitating standby letters of credit, and the Company is charged a nominal fee on amounts used against the line as security for letters of credit. Funds available under this line are reduced by any amounts used as security for letters of credit. At March 31, 1994, \$3,779,000 was available under this line of credit. As of April 1, 1994, the amount of the line of credit was decreased to \$5 million resulting in an availability of \$1,279,00 as of that date.

IGT-Australia had a \$440,000 (Australian) bank line of credit available as of March 31, 1994. Interest is paid at the lender's reference rate plus 1%. This line is secured by equitable mortgages, and has a provision for review and renewal annually in May. At March 31, 1994, no funds were drawn under this line.

## Adoption of Recently Issued Accounting Standards

The Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," effective as of October 1, 1992. There was no material effect on the Company's financial statements due to the adoption of this statement.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

None.

#### Item 2. Changes in Securities

None.

#### Item 3. Defaults Upon Senior Securities

None.

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

(a) On February 22, 1994, the Company held its annual meeting of stockholders.

(b) The following directors were re-elected to serve until the next annual meeting: Albert J. Crosson, Wilbur K. Keating, Charles N. Mathewson, Warren L. Nelson, Frederick B. Rentschler, John J. Russell, and Claudine B. Williams. These directors constitute all of the directors of the Company.

#### Item 5. Other Information

None.

#### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

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: May 12, 1994

INTERNATIONAL GAME TECHNOLOGY

By: /s/Scott Shackelton  
Scott Shackelton  
Vice President  
Corporate Controller