

INTERNATIONAL GAME TECHNOLOGY
Form 10-K
November 26, 2013

United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended September 28, 2013
(presented as September 30, 2013)
OR

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

For the transition period from ____ to ____

Commission File Number 001-10684

International Game Technology

Nevada
(State or other jurisdiction of incorporation or organization)

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

6355 South Buffalo Drive, Las Vegas, Nevada 89113
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (702) 669-7777

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$.00015625	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant on March 31, 2013: \$4.3 billion.

The number of shares outstanding of each of the registrant's classes of common stock, as of November 22, 2013: 248.9 million shares of common stock at \$.00015625 par value.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of our Proxy Statement relating to the 2014 annual shareholders meeting are incorporated by reference in Part III. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended September 28, 2013

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

Fiscal dates—actual:	Fiscal dates—as presented:
September 28, 2013	September 30, 2013
September 29, 2012	September 30, 2012
October 1, 2011	September 30, 2011
October 2, 2010	September 30, 2010
October 3, 2009	September 30, 2009

<u>Abbreviation/term</u>	<u>Definition</u>
Anchor	Anchor Gaming
AOCI	Accumulated other comprehensive income (loss)
APAC	Asia, Australia, New Zealand, and the Pacific
APIC	additional paid-in-capital
ASP	average sales price (machines)
ASR	accelerated share repurchase transaction
ASU	Accounting Standards Update
5.35% Bonds	5.35% fixed rate notes due 2023
5.5% Bonds	5.5% fixed rate notes due 2020
7.5% Bonds	7.5% fixed rate notes due 2019
B2B	Business-to-business
B2C	Business-to-customer/consumer
bps	basis points
CDS	central determination system
CEO	chief executive officer
CFO	chief financial officer
CLS	China LotSynergy Holdings, Ltd.
DAU	Daily Active Users
DCF	discounted cash flow
DoubleDown	Double Down Interactive LLC
EBITDA	earnings before interest, taxes, depreciation, and amortization
EMEA	Europe (including the UK), the Middle East, and Africa
Entraction	Entraction Holding AB
EPS	earnings per share
ERISA	Employee Retirement Income Security Act
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles
IGT, we, our, the Company	International Game Technology and its consolidated entities
IGT rgs®	IGT Remote Game Server™
IP	intellectual property
IRS	Internal Revenue Service
LAC	Latin America (Mexico, South and Central America) and the Caribbean
LIBOR	London inter-bank offered rate
MAU	Monthly Active Users
MDA	management's discussion and analysis of financial condition and results of operations
MLD™	Multi-layer-display
Notes	3.25% convertible notes due 2014
OCI	Other comprehensive income (loss)

OSHA
pp
R&D

Occupational Safety & Health Administration
percentage points
research and development

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<u>Abbreviation/term</u>	<u>Definition</u>
SEC	Securities and Exchange Commission
SIP	2002 Stock Incentive Plan
SG&A	sales, general and administrative
UK	United Kingdom
US	United States
VAT	value added tax
VIE	variable interest entity
VWAP	average daily volume weighted average price
VLT	Video lottery terminal
WAP	wide area progressive
WMS	WMS Gaming, Inc.
Yield	average revenue per unit per day
*	not meaningful (in tables)

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FORWARD LOOKING STATEMENTS

This report contains statements that do not relate to historical or current facts, but are “forward looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to future events or trends, our future prospects and proposed new products, services, developments, or business strategies, among other things. These statements can generally (although not always) be identified by their use of terms and phrases such as anticipate, appear, believe, could, would, estimate, expect, indicate, intend, may, plan, predict, project, pursue, will, continue, and other similar terms and phrases, as well as the use of the future tense.

Examples of forward looking statements in this report include, but are not limited to, the following categories of expectations about:

- our ability to successfully introduce new products and their impact on replacement demand
- the timing, features, benefits, and expected continued or future success of new product introductions and ongoing product, marketing, and strategic initiatives
- our expected future financial and operational performance
- our strategic and operational plans
- our leadership position in the gaming industry or in online casino-style social gaming
- the advantages offered to customers by our anticipated products and product features
- economic conditions and other factors affecting the gaming industry
- gaming growth, expansion, and new market opportunities
- expected trends in the demand for our products
- developments with respect to economic, political, regulatory and other conditions affecting our international operations
- mergers, acquisitions and divestitures, including the expected benefits of completed acquisitions and expectations for possible acquisitions of, or investments in, businesses, products, and technologies
- research and development activities, including anticipated benefits from such activities
- fluctuations in future gross margins, tax rates, and liabilities
- expectations regarding product sales or machine placements
- legislative, legal or regulatory developments and related market opportunities
- available capital resources to fund future operating requirements, capital expenditures, payment obligations, acquisitions, dividends, and share repurchases
- losses from off-balance sheet arrangements
- financial returns to shareholders related to management of our costs
- the impact of recently adopted accounting pronouncements
- the outcome and expense of litigation

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. See Part I, Item 1A, Risk Factors, in this report for a discussion of risks and uncertainties. You should not assume at any point in the future that the forward looking statements in this report are still valid. We do not intend, and undertake no obligation, to update our forward looking statements to reflect future events or circumstances.

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PART I

Item 1. Business

International Game Technology is a global gaming company specializing in the design, development, manufacture, and marketing of casino-style gaming equipment, systems technology, and game content across multiple platforms—land-based, online real-money and social gaming. We are a leading supplier of gaming entertainment products worldwide and provide a diverse offering of quality products and services at competitive prices, designed to enhance the gaming player experience.

International Game Technology was incorporated in Nevada in December 1980 to facilitate our initial public offering in 1981. Principally serving the US gaming markets when founded, we expanded into jurisdictions outside the US beginning in 1986.

Our fiscal year is reported on a 52/53-week period that ends on the Saturday nearest to September 30. For simplicity, this report presents all fiscal years using the calendar month end as outlined in the table below.

Fiscal Year	Fiscal Year Ended		Weeks
	Actual	Presented as	
2013	September 28, 2013	September 30, 2013	52
2012	September 29, 2012	September 30, 2012	52
2011	October 1, 2011	September 30, 2011	52
2010	October 2, 2010	September 30, 2010	52
2009	October 3, 2009	September 30, 2009	53

Unless otherwise indicated in this report:

- International Game Technology, IGT, we, our, or the Company refers to International Game Technology and its consolidated entities
- italicized text with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors, and additional IGT trademark information is available on our website at www.IGT.com
- references to years relate to our fiscal years ending September 30
- current refers to the fiscal year ended September 30, 2013
- Note refers to the Notes of our Consolidated Financial Statements in Item 8 of this report
- references to EPS are on a diluted basis
- table amounts are presented in millions, except units and EPS
- discussion and analysis relates to results for continuing operations of the current year as compared with the prior year
- information posted on our website is not incorporated into this Form 10-K

BUSINESS SEGMENTS

We derive our revenues from the distribution of casino games, gaming equipment and systems technology for land-based and online (social and real-money) markets. Operating results reviewed by our CEO encompass all revenue sources within each geographical region. We currently view our business in two operating segments, North America and International, each incorporating all revenue categories—Gaming Operations, Product Sales, and Interactive. Unless otherwise noted, prior year amounts throughout this report have been adjusted for operations discontinued during 2011, as further described in Note 22.

North America, comprising 78% of consolidated revenues in 2013, 76% in 2012 and 2011, includes operations associated with our land-based and online real-money customers located in the US and Canada, as well as all customers serviced by our US-based social gaming operations.

International, comprising 22% of consolidated revenues in 2013, 24% in 2012 and 2011, consists of our land-based and online real-money customers located in all other jurisdictions worldwide.

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We measure segment profit on the basis of operating income. Certain income and expenses are managed at the corporate level and not allocated to an operating segment. Other segment and financial information is contained in our MDA BUSINESS SEGMENT RESULTS and Note 19 is incorporated here by this reference.

REVENUE CATEGORIES

We recognized revenues in three major categories — Gaming Operations, Product Sales and Interactive. See Footnote 1 for additional information about our revenue accounting policies.

Gaming Operations

Comprising 42% of consolidated revenues in 2013, 48% in 2012, and 53% in 2011, gaming operations generates recurring revenues by providing customers with proprietary land-based casino gaming equipment, systems, content licensing, and services under a variety of arrangements. Our gaming operations pricing arrangements are largely variable where casinos pay service fees to IGT based on a percentage of amounts wagered (also referred to as coin-in) or net win. Variable fee units comprised 83% of our IGT owned gaming operations installed base at September 30, 2013. Fixed fee units comprised 17% of our IGT owned gaming operations installed base at September 30, 2013 and pricing arrangements are typically based on a daily or monthly fee.

Casinos with IGT WAP machines paid a percentage of the coin-in for IGT services related to the design, assembly, installation, operation, maintenance, and marketing of the WAP systems, as well as funding and administration of the progressive jackpot. The cost of funding progressive jackpots is subject to interest rate volatility as further described in Note 1, MDA—CRITICAL ACCOUNTING ESTIMATES and related risks included in Part I—Item 1A.

Gaming operations revenues are affected by variations in the number and type of machines in service, levels and frequency of player wagers, and pricing arrangement terms. Levels of play are dependent on game popularity, casino seasonality trends, economic conditions, and other player preferences. Seasonal trends generally show higher play levels in the spring and summer months and lower in the fall and winter months. We monitor the productive life cycles of our gaming operations machines and systematically replace units experiencing declining play levels with newer games.

The IGT owned gaming operations installed base is comprised of our MegaJackpots® premium branded gaming machines, including WAP and stand-alone units, as well as other lease or rental units, including CDS and racino machines. IGT owned units are recorded on our balance sheet as part of property, plant and equipment. Casino owned units represent machines sold to our customers that also provide a recurring royalty fee. Gaming operations revenues are generated from the units reflected in the table below, as well as from other service fees for systems access, game content, and other gaming equipment lease or rental.

Gaming Operations Units ('000)	2013	2012	2011
IGT owned units - MegaJackpots® (Premium brand)	25.1	27.1	27.8
IGT owned units - Lease (CDS, racino, other)	29.5	30.0	26.1
IGT installed base	54.6	57.1	53.9
Casino owned	22.1	21.6	20.4
Total	76.7	78.7	74.3

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Product Sales

Comprising 46% of consolidated revenues in 2013, 45% in 2012 and 2011, product sales revenues are generated from the sale of land-based gaming equipment, content, systems, services, and component parts (including kit conversions).

Product Sales Composition	2013	2012	2011
Slot machines	69 %	67 %	63 %
Non-machine	31 %	33 %	37 %
Gaming systems	19 %	20 %	22 %
Parts & conversions	9 %	10 %	12 %
Other fees & services	3 %	3 %	3 %

Interactive

Comprising 12% of consolidated revenues in 2013, 7% in 2012, and 2% in 2011, interactive revenues are generated from online social gaming and real-money gaming products and services, presented in the following two groups.

Social Gaming

Our North America based DoubleDown online casino-style social gaming was acquired in January 2012 and generates revenues from the sale of virtual casino chips to players for use within the DoubleDown Casino® for additional play or game enhancements. Costs of revenues are comprised mainly of payment processing fees like those paid to Facebook, Apple, Google or land-based casino hosts on a revenue participation basis. Social gaming metrics include:

DAU measures the number of active users that play games at the DoubleDown Casino® each day. Average DAU is the average of the DAUs for each day during the period.

MAU measures the number of active users that played games at the DoubleDown Casino® at least once in the last 30 days. Average MAU is the average of the MAUs each day during the period.

DAU/MAU is a ratio used to monitor user engagement.

Bookings represent the total amount of virtual casino chips sold during the period, as opposed to revenues, which include deferral adjustments based on the estimated period of service or chip consumption.

Unlike many other online casino-style social games where each game is a unique application, DoubleDown operates as a single casino application with multiple games where all games are available to the player within a single application. As a result, DoubleDown's reported number of active users is the equivalent of the number of unique users reported by many other online social casino-style game operators. Our DoubleDown strategy focuses on increasing DAU as an indicator of user engagement and average bookings per DAU. For 2013 DoubleDown averaged DAU of 1.6 million and average bookings per DAU of \$0.37.

IGTi

IGTi encompasses our online real-money casino and mobile gaming systems infrastructure and applications, content licensing, and back office operational support services, including WAP jackpot funding and administration. IGTi solutions are generally provided under revenue sharing arrangements based on a percentage of net win.

IGTi solutions are provided primarily in B2B arrangements where IGTi provides content and services to a partnering business, which then connects to the player through the partner's own site. To a lesser extent in B2C arrangements, IGTi runs the online website on behalf of the customer, connecting directly with the player. IGTi costs of revenues includes transaction costs incurred to run the sites, including player verification checks, banking transaction fees, data center costs to host servers, internet bandwidth fees, royalties, and server support/maintenance fees.

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STRATEGIC BUSINESS ACQUISITIONS AND AFFILIATES

We aim to complement our internal resources through strategic alliances, investments, and business acquisitions that:

- diversify our geographic reach
- expand our product lines and customer base
- leverage our technological and manufacturing infrastructure to increase our rates of return

In January 2012, we acquired Seattle based Double Down Interactive LLC., developer and operator of the online social gaming DoubleDown Casino® found on Facebook. DoubleDown has a broad and expanding game portfolio, offering blackjack, slots, slot tournaments, video poker, bingo, and roulette to social gamers around the world. This strategic acquisition has established IGT’s position in social casino-style gaming and strengthened our core business with added distribution channels for IGT game content. DoubleDown is presented as a component of our North America segment.

Acquisitions and affiliate investments are also discussed in Notes 2 and 21. Discontinued operations, and material asset losses or impairment recognized during the last three years are discussed in our MDA—OVERVIEW, MDA—CONSOLIDATED RESULTS, and Notes 20 and 22. Risks related to business combinations and investments are described in Part I—Item 1A.

PRODUCTS

We provide a broad range of casino-style game content, equipment and systems technology for land-based and online social and real-money gaming markets under for-sale, revenue sharing, and other leasing arrangements. Concentrating on game content development and distribution across multiple channels, IGT is making meaningful inroads into achieving convergence between and amongst the online and land-based gaming worlds.

Games

We combine elements of math, play mechanics, sound, art, and technological advancements with our library of entertainment licenses and patented IP to provide gaming products designed to provide a high degree of player appeal. We continuously expand our game library with new content, popular brands, and appealing bonuses to address player preferences and other market trends.

We offer a wide array of casino-style games for land-based, online social gaming, online real-money and mobile gaming markets with multi-line, multi-coin and multi-currency configurations.

<u>Land-Based</u>	Multi-Player
Premier (MegaJackpots®)	Electronic Table
Multi-Level Progressive	Virtual Racing
Wide-Area Progressive	
Stand-Alone	<u>Interactive (includes mobile)</u>
Bonusing Concepts	Online Social
Core	Slots
Video Reel	Video Poker
Spinning Reel	Table Games
Video Poker	Bingo
Multi-Game (Game King®)	Online Real-money
Game Families	MegaJackpots®
Game Hardware Series	Slots

Central Determination System	Table Games
Bingo (Class II)	Fixed Odds
VLT	Video Poker
	Bingo & Keno

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Cabinet Configurations

Land-based customers can combine our extensive library of games with several gaming machine cabinets designed to maximize functionality, flexibility, and player comfort. Our AVP® machines support server-based gaming networks with G2S open industry standards. Slot machine configurations vary by jurisdiction and may include:

- Stand-alone casino-style slot machines that determine the game play outcome at the machine, known as Class III in tribal jurisdictions
- WAP jackpot systems with machines linked across several casinos
- CDS machines connected to a central server that determines the game outcome, encompassing VLT's (video lottery terminals) used primarily in government-sponsored applications and electronic or video bingo machines, known as Class II in tribal jurisdictions

Systems

IGT systems products include infrastructure and applications for casino management, customer relationship management, player management, and server-based gaming. Our casino and customer relationship management solutions include integrated modules for:

- machine accounting
- patron management
- cage accounting
- table accounting
- ticket-in/ticket-out
- bonusing (jackpots and promotions)
- table game automation
- payment processing
- reporting
- regulatory compliance

Our player management solutions feature customized player messaging, tournament management, and integrated marketing and business intelligence modules that provide analytical, predictive, and management tools for maximizing casino operational effectiveness. Our server-based solutions enable electronic game delivery and configuration for slot machines, as well as providing casino operators with opportunities to increase profits by enhancing the players' experience, connecting with players interactively, and creating operational efficiencies.

Interactive

IGT's Double Down online social gaming operation provides a unique opportunity for casino entertainment to reach a broader audience, while complementing IGT's other existing offerings and the core casino audience. DoubleDown Casino® is available online through Facebook and www.DoubleDownCasino.com on a variety of personal computer and mobile devices. Additionally, our land-based casino customers can integrate the DoubleDown Casino® link into their own website providing players with access to a large portfolio of popular social casino-style games. The DoubleDown Casino® link provides casino operators with an opportunity to engage their customers when they are not physically present in the land-based casino.

IGT also provides real-money online casino and mobile gaming systems infrastructure and applications, content licensing, and back office operational support services. The IGT Remote Game Server® (IGT rgs®) seamlessly integrates onto an operator's interactive platform, allowing access to our portfolio of game content that allows for real-money online in legalized jurisdictions. These systems are primarily focused on the management of digital patron wallets, responsible gaming functionality, fraud detection and prevention, patron credentials, customer relationship management, player accounting, and player analytics. With these solutions, we deploy a full service platform capable of supporting the main games associated with online real-money (casino games, sports betting, multi-player poker and bingo).

RESEARCH & DEVELOPMENT

We support our product development efforts through a considerable emphasis and investment in the R&D of emerging technology trends, which we believe enables us to maintain a leadership position in the industry. Our product innovation reflects a combination of customer research, design experience and engineering excellence utilizing our game design resources, IP portfolio, and next-generation game development tools. The focus of our product development is to enhance the player experience through interactive networked gaming, information technology, innovative game design, and customer relationship services, thereby maximizing the potential for player entertainment and casino operator profitability.

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We dedicate approximately 1,860 employees worldwide to R&D efforts covering multiple engineering disciplines, including hardware, electrical, systems and software for land-based, online social, and online real-money applications. We specialize in progressive creative game development including design, math, graphics and audio. Our primary development facilities are located in Nevada (Reno and Las Vegas), California (San Francisco), Washington (Seattle), China (Beijing), and Australia (Sydney). Additional global design centers provide local community presence, customized products, and regional production where beneficial or required.

Our games are created primarily by employee designers, engineers, and artists, as well as third-party content creators. We also use third-party technologies to improve the yield of our development investment and concentrate increased resources on product differentiation engineering. A significant amount of our R&D efforts during 2013 continued to focus on expanding interactive online opportunities through content development synergies related to the convergence of land-based, online social, and online real-money channels. Our investment in R&D totaled \$235.0 million in 2013, \$217.0 million in 2012, and \$194.7 million in 2011.

Intellectual Property

Our IP portfolio of patents, trademarks, copyrights, and other licensed rights are significant to our business. At September 30, 2013, we held approximately 6,000 patents or patent applications and approximately 4,100 trademarks filed and registered worldwide. The weighted average remaining useful life of our capitalized patent costs at September 30, 2013 was approximately 2.8 years. Our brand licensing arrangements have various expiration dates through 2020 and commonly contain options to extend.

We seek to protect our investment in R&D and the new and original features of our products by perfecting and maintaining our IP rights. We obtain patent protection covering many of our products and have a significant number of US and foreign patent applications pending. Our portfolio is widely diversified with patents related to a variety of gaming products, including game designs, bonus and secondary imbedded game features, device components, and online or mobile functionality.

We market most of our products under trademarks and copyrights that provide product recognition and promote widespread acceptance. We seek protection for our copyrights and trademarks in the US and various foreign countries, where applicable. We use IP assets offensively and defensively to protect our innovation and license it to others under terms designed to promote standardization in the gaming industry. IP litigation is described in Note 13 and related risk factors are discussed in Part I—Item 1A.

SALES AND MARKETS

We market our products and services worldwide. We have a substantial presence in the US and growing international operations. We promote our products and services through a worldwide network of sales associates, as well as third-party distributors and agents in certain markets under arrangements that generally specify no minimum purchase and require specified performance standards be maintained. We offer product-related contract financing for qualified customers and development financing loans to select customers for new or expanding gaming facilities.

As of September 30, 2013, we maintained 59 offices worldwide to respond to customer needs and our Global Support Center is staffed with experts in technical issue resolution. We provide access to product information and 24-hour customer service through our website and offer a variety of customer training designed to ensure success in using our products and services to their full potential.

North America

The gaming industry installed base of slot machines in the US and Canada has been relatively stable over the last few years, at just over 939,000 legal gaming devices by our estimates. Growth of legalized gaming is largely driven by new jurisdictions considering gaming tax revenues as a means to address budget shortfalls. Sales or placements of gaming machines are also affected by new openings or expansion of existing gaming properties and the machine replacement cycle, as well as economic conditions. Additionally, we expanded into online social gaming with the acquisition of DoubleDown in January 2012.

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International

The international market opportunities are expected to grow at a faster pace in the future than in North America. We continue localizing our sales presence in these international markets, as we increase scalability and prepare for new opportunities. Our global strategy capitalizes on our North America experience, while customizing products for foreign languages, unique local preferences, and regulatory requirements.

Our international gaming markets included the following customer regions at September 30, 2013:

- Europe (including the UK), the Middle East, and Africa (EMEA)
- Latin America (Mexico, South and Central America) and the Caribbean (LAC)
- Asia, Australia, New Zealand, and the Pacific (APAC)

As the legalization and regulation of online gaming continues to unfold, our strategic intent is to enter and do business in those regulated markets that offer attractive return characteristics and build on our existing capabilities. In conjunction with an evaluation of resources, products, and markets from a commercial and compliance perspective, during our 2012 fourth quarter we determined it was prudent to consolidate our IGTi product development and customer service resources in Europe primarily acquired with Entraction, due in part to diminished returns largely related to regulatory challenges. As a result, we began exiting certain online turnkey and poker operations and closing or reducing certain facilities in Europe (Stockholm and Tallinn). Resulting impairment and restructuring charges are discussed in our MDA-CONSOLIDATED RESULTS, MDA--BUSINESS SEGMENT RESULTS, and Note 20.

OPERATIONAL OVERVIEW

Manufacturing and Suppliers

Our main manufacturing facilities are located in Nevada. We currently devote approximately 623,000 square feet in our Reno, NV facilities and approximately 223,000 square feet in our Las Vegas, NV facility to product development, manufacturing, warehousing, shipping, and receiving. Our manufacturing operations primarily involve the configuration and assembly of electronic components, cables, harnesses, video monitors, and prefabricated parts purchased from outside sources. We also operate facilities for silkscreen manufacturing and digital design.

We use a variety of raw materials to manufacture our gaming devices including metals, wood, plastics, glass, electronic components, and LCD screens. We have global material suppliers and utilize multi-sourcing practices to promote component availability. We believe the availability of materials used to manufacture our products is adequate and we are not substantially dependent on any single supplier.

Maintaining our commitment to quality, we recertified our ISO 9001.2008 Quality Management System certification at our Reno, Las Vegas, Bozeman (Montana) and Hoofddorp (Netherlands) facilities during 2013. In May 2013, we added the China Research and Development Center to our ISO Certification. ISO standards represent an international consensus with respect to the design, manufacture, and use of practices intended to ensure ongoing customer satisfaction with consistent delivery of products and services.

We generally carry a sufficient amount of inventory related to the breadth of our product lines. We reasonably expect to fill our manufacturing product order backlog for both gaming operations and product sales within the next fiscal year. Backlog for gaming operations machine units totaled 2,400 at October 31, 2013 and 7,800 at October 31, 2012. Product sales backlog totaled approximately \$151.6 million at October 31, 2013 and \$197.3 million at October 31, 2012.

Employees

As of September 30, 2013, we employed over 5,000 individuals worldwide, with approximately 4,100 in our North America segment and 900 in our International segment. We continue to review our costs and organizational structure to maximize efficiency and align expenses with the current and long-term business outlook.

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COMPETITION AND PRODUCT DEMAND

IGT operates within an increasingly competitive market. The markets for our gaming products and services are constantly evolving and technological advances increasingly employ personal computers, mobile communication, and other digital media devices, which have reduced barriers to entry. Our competitors range from small, localized companies to large, multi-national corporations in every jurisdiction where we conduct business. Our most significant competitors include Ainsworth Game Technology Ltd, Aristocrat Leisure Limited, Bally Technologies, Inc., Konami Gaming Inc., Novomatic Group of Companies, and WMS Industries, Inc. (acquired by Scientific Games Corporation on October 18, 2013).

We believe machine replacement sales are driven by customer strategies to upgrade casino platforms with player enticing new game content and technologies that increase yields, cost savings, convenience, and other benefits. The replacement cycle can be accelerated by emerging technologies that improve operators' profitability, such as online and mobile delivery mechanisms that increase cross-functionality, game features that increase player appeal, or application modules that increase operator efficiencies.

New or expanding casinos generate new product demand and stimulate replacement demand at neighboring properties compelled to upgrade their gaming platforms to remain competitive. New jurisdictions establishing legalized gaming also create product demand and continue to grow the overall installed base of gaming devices.

We focus our development efforts on the creation of game content designed for distribution convergence across multiple channels with superior functionality and features, using innovative architecture and technologies, resulting in a high degree of customer acceptance and player preference. We also strive to maintain an edge in our quality of customer support and efficient product implementation. The breadth of our gaming products and diversity of our innovative game library contribute to our competitive advantage.

We believe IGT has competitive advantages resulting from broad alliances and lengthy business relationships with our customers, the financial strength to aggressively invest in R&D, and an extensive IP portfolio. Our historically high levels of customer service and support, extensive and well-established infrastructure of sales and manufacturing, worldwide name recognition, and geographic diversity are also competitive assets. We believe our reputation for consistently delivering and supporting quality products will encourage operators to select our products and enable us to maintain a substantial market position.

AVAILABLE INFORMATION

IGT's principal corporate executive offices are located at: 6355 South Buffalo Drive
Las Vegas, Nevada 89113
(702) 669-7777

All reporting information filed with or furnished to the SEC is available free of charge through the Investor Relations link on our website at www.IGT.com as soon as reasonably practicable after we electronically file or furnish such information to the SEC.

The public may read and copy any materials filed by the company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC available at www.sec.gov.

Additionally, the following IGT information is available through the Investor Relations link of our website and will be mailed in print form free of charge to any shareholder upon request:

- code of conduct
 - corporate governance guidelines
 - code of ethics for our principal executive officer and senior financial officers
 - conflict of interest guidelines for members of our board of directors
 - charters for our Audit, Capital Deployment, Compensation, and Nominating and Corporate Governance Committees
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GOVERNMENT GAMING REGULATION

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 for the company, as well as individual officers, directors, major shareholders, and key employees
- documentation of qualifications, including evidence of financial stability
- other required approvals for companies who manufacturer or distribute gaming equipment and services, including but not limited to new product approvals

Our operating entities and key personnel have obtained or applied for all required government licenses, permits, registrations, findings of suitability, and approvals necessary to manufacture and distribute gaming products in all jurisdictions where we do business. Although many regulations at each level are similar or overlapping, we must satisfy all conditions individually for each jurisdiction.

Gaming laws and regulations serve to protect the public and ensure that gaming related activity is conducted honestly, competitively, and free of corruption. Regulatory oversight additionally ensures that the local authorities receive the appropriate amount of gaming tax revenues. As such, our financial systems and reporting functions must demonstrate high levels of detail and integrity.

Certain regulators not only govern the activities within their jurisdiction, but also monitor our activities in other jurisdictions to ensure that we comply with local standards on a worldwide basis. As a Nevada licensee, state regulatory authorities require us to maintain Nevada standards for all operations worldwide. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is provided in Exhibit 99.1 of this Annual Report on Form 10-K, incorporated herein by reference.

The nature of the industry and our worldwide operations make this process very time consuming and require extensive resources. We employ additional community staff members and legal resources familiar with local customs in certain jurisdictions to assist in keeping us compliant with applicable regulations worldwide. Through this process, we seek to assure both regulators and investors that all our operations maintain the highest levels of integrity and avoid any appearance of impropriety. We have never been denied a gaming related license, nor have our licenses ever been suspended or revoked.

Risk factors related to gaming regulation are discussed in Part 1, Item 1A. Changes in or new interpretations of existing gaming laws and regulations may hinder or prevent us from continuing to operate in certain jurisdictions. Regulatory challenges related to our interactive operations in Europe are discussed in our MDA-CONSOLIDATED RESULTS, MDA--BUSINESS SEGMENT RESULTS, and Note 20.

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Item 1A. Risk Factors

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 a continued slow economic recovery and negative economic conditions, sustained levels of unemployment, natural disasters, acts of war or terrorism, transportation costs or 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. Recent unfavorable economic conditions resulted in a tightening in the credit markets, decreased liquidity in many financial markets, significant volatility in the credit and equity markets, and uncertainty about continuing economic stability remains.

A decline in the relative health of the gaming industry and any difficulty or inability of our customers to obtain adequate levels of capital to finance their ongoing operations may reduce their resources available to purchase our products and services or affect our ability to collect outstanding receivables, 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, an extended economic downturn could 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 customer financing we provide to customers, which has recently increased in amount.

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 new or changing laws or regulations, new interpretations of existing laws or regulations, and difficulties or delays in obtaining or maintaining needed licenses or product approvals.

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 for the company, as well as individual suitability of officers, directors, major shareholders and key employees
- 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

Any license, permit, approval or finding of suitability may be revoked, suspended or conditioned at any time. We may be unable to obtain or maintain all necessary registrations, licenses, permits or approvals, and could incur fines or experience delays related to the licensing process which could adversely affect our operations and our ability to retain 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, we cannot sell, service or place on a participation or leased

basis our products in that jurisdiction and our issued licenses in other jurisdictions may be impacted. 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 or delay our ability to recognize revenue from the sale or installation of products in any such jurisdictions.

Public opinion can also exert a significant influence over the regulation of the gaming industry. A negative shift in the public's perception of gaming could affect future legislation in individual jurisdictions. Among other things, such a shift could cause jurisdictions to abandon proposals to legalize gaming, thereby limiting the number of new jurisdictions into which we could expand. Negative public perception could also lead to new restrictions on or the prohibition of gaming in jurisdictions in which we currently operate.

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Further, changes in existing gaming laws or regulations, new interpretations of existing gaming laws or regulations or changes in the manner in which existing laws and regulations are enforced, all 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, cybersecurity and anti-money laundering 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. Slow growth in the establishment of new gaming jurisdictions, delays in the opening of new or expanded casinos and 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 consolidates with another entity that utilizes more of the products and services 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.

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, pricing models, 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.

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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. In particular, we have observed an influx of small gaming equipment manufacturers entering the market over the last few years. 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.

There has also been consolidation recently in the gaming industry among our competitors. Such consolidation could alter the competitive landscape of the industry by resulting in the formation of larger competitors with increased financial resources and altered cost structures, which may enable them to have more competitive pricing models and gain a larger market share of customers, as well as expanded product offerings and broader geographic scope of operations.

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 resulting decreased player spend.

Our online social gaming and wagering operations are also subject to intense competition. In particular, the online social gaming casino operated by DoubleDown is relatively new and has lower barriers to entry. Several companies have launched social casino offerings, and new competitors are likely to continue 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. The process of developing new products and systems is inherently complex and uncertain. It requires accurate anticipation of changing customer needs and end user preferences as well as emerging technological trends. If our competitors develop new game content and technologically innovative products and we fail to keep pace, our business could be adversely affected. To remain competitive, we invest resources towards our research and development efforts to introduce new and innovative games with dynamic features to attract new customers and retain existing customers. If we fail to accurately anticipate customer needs and end user preferences through the development of new products and technologies, we could lose business to our competitors, which would adversely affect our results of operations and financial position.

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: platform hardware, platform software, online services, content (game) design and casino software systems. Because our newer products are generally more technologically sophisticated than those we have produced in the past, we must continually refine our design, development and delivery capabilities across all channels to meet the needs of our product innovation. If we cannot efficiently adapt our processes and infrastructure to meet the needs of our product innovations, our business could be negatively impacted.

Our customers will accept a new game 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.

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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. In addition, certain aspects of our domestic business, such as our supply chain, may be impacted by events and conditions internationally. 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
- volatility of international financial markets and fluctuations in currency exchange rates
- adverse changes in the creditworthiness of parties with whom we have significant receivables or forward currency exchange contracts
- longer receivables collection periods and increased difficulty in collecting accounts receivables
- expropriation, nationalization and restrictions on repatriation of funds or assets
- difficulty protecting our intellectual property, especially in countries with fewer intellectual property protections
- recessions in foreign economies
- difficulties in maintaining, managing and financing foreign operations
- changes in consumer tastes and trends across different jurisdictions
- 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 licensing certain of those rights and/or protecting those rights from infringement, including losses of proprietary information from breaches of our cybersecurity efforts. 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, especially in light of increased social media use and the risk that proprietary information will not be adequately protected. 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.

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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 costs 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.

In addition, intellectual property rights of others, including our competitors, may prevent us from taking advantage of innovative technologies by restricting our ability to develop these technologies ourselves, incorporate new technologies into our systems, or enter new markets created by these technologies, all of which may adversely affect our competitive position and results of operations.

Our online social gaming casino offering is conducted largely through Facebook and Apple's IOS platform, and our business and our growth prospects would suffer if we fail to maintain good relationships with Facebook and Apple, or if Facebook or Apple were to alter the terms of our relationship.

DoubleDown Casino®, which is our online social gaming casino offering, operates largely through Facebook and Apple's IOS platform. Consequently, our operating platform, growth prospects and future revenues from this online offering are dependent on our continued relationships with Facebook and Apple. While DoubleDown has historically maintained good relationships with Facebook and Apple, our online social gaming casino offering would suffer if we are unable to continue these relationships in the future.

In addition, our relationships with Facebook and Apple are not governed by a contract, but rather by Facebook and Apple's standard terms and conditions for application developers. Facebook and Apple each modify these terms and conditions as well as their respective 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 and Apple were to increase the fees they charge application developers, our gross profit and operating income would suffer. Additionally, if users were to limit our ability to use their personal information, if Facebook and Apple were to develop competitive offerings, either on its own or in cooperation with another competitor, or if Facebook and Apple were to alter their operating platform to our detriment, our growth prospects would be negatively impacted.

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.

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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 online social gaming DoubleDown Casino® may be offered on Facebook alongside existing or planned online social gaming casino offerings by one or more of our casino customers. One or more of such casino customers could view our online social gaming 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.

