

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 78991 / September 29, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17596

In the Matter of

**INTERNATIONAL GAME
TECHNOLOGY,**

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 21C OF THE SECURITIES
EXCHANGE ACT OF 1934, MAKING
FINDINGS, AND IMPOSING A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against International Game Technology (“IGT” or “Respondent”), a subsidiary of International Game Technology PLC (the successor to GTECH S.p.A., an Italian company) (“IGT PLC”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds that:

SUMMARY

1. These proceedings involve IGT's violations of the whistleblower employment anti-retaliation provisions in Section 21F(h) of the Exchange Act, added by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The whistleblower, a director of an IGT division (the "Whistleblower"), started working at IGT in 2008 and received positive performance evaluations throughout his tenure, including his mid-year review in 2014. Shortly after his favorable 2014 mid-year review, the Whistleblower raised concerns to his managers, to the company's internal complaint hotline, and to the Commission that IGT's publicly-reported financial statements may have been misstated due to IGT's cost accounting model relating to its used parts business. As part of the Whistleblower's job function, he had been tasked with evaluating the pricing methodology for used parts used by IGT, but he did not oversee the company's accounting functions. IGT conducted an internal investigation with the assistance of outside counsel and determined that its reported financial statements contained no misstatements. Approximately three months after the Whistleblower raised his concerns, IGT terminated him.

RESPONDENT

2. *IGT* was a Nevada corporation headquartered in Las Vegas, Nevada. IGT was traded on the New York Stock Exchange ("NYSE") when the events herein occurred. Subsequently, IGT was acquired by, and now operates as a subsidiary of, IGT PLC (the successor to GTECH S.p.A., an Italian company). IGT PLC is a public limited company organized under the laws of England and Wales and trades on the NYSE under the ticker symbol 'IGT' as a foreign private issuer. IGT PLC, through its subsidiaries, manufactures, sells, leases, and services casino-gaming equipment.

FACTS

The Whistleblower's Performance History

3. The Whistleblower joined IGT in 2008. At the time of his termination on October 30, 2014, IGT had promoted the Whistleblower to the position of a director of a division responsible for a spending budget of over \$700 million and supervision of up to eleven direct reports. From September 2011 until October 2014, the Whistleblower's first-level supervisor was a vice-president (the "VP Supervisor") and his second-level supervisor was a c-level executive (the "Executive Supervisor" and collectively the "Whistleblower's Supervisors").¹

4. Throughout his tenure with IGT, the Whistleblower received positive written evaluations from his managers up to and including his final mid-year review in 2014. From the fiscal year beginning in October 2011 onward, those reviews were prepared by the VP Supervisor and reviewed and approved by the Executive Supervisor. During this period, the Whistleblower's bonuses and grants were at or near the highest awarded for employees within the VP Supervisor's organization. Prior to his termination, the Whistleblower had never been formally disciplined for

¹ Neither of the Whistleblower's Supervisors is currently employed at IGT PLC.

his job performance, including never receiving any corrective action, performance correction memo, or performance improvement plan.

5. Between July 23, 2014 and July 30, 2014, the Whistleblower's Supervisors took actions consistent with their positive assessment of the Whistleblower's performance as of that time. The VP Supervisor completed a "talent planning" matrix of his direct reports (which was circulated to senior management, including the Executive Supervisor) that ranked the Whistleblower as the VP Supervisor's top employee, as a "high potential" employee, and as an employee with a potential "future assignment" at the vice-president level. In addition, the Whistleblower's Supervisors sought authorization from senior human resources managers for a special retention bonus for the Whistleblower. In making the request, on July 24, 2014, the VP Supervisor wrote, "[The Executive Supervisor] and I both feel [the Whistleblower] is a flight risk. . . He is very strategic to our whole . . . [p]rocess and the results we have had to date," and the following day that, "[a]ll I am noting is that [the Whistleblower] would be a real lost [*sic*] when considering integration. No person is irreplaceable, but [the Whistleblower] would have a negative impact."

The Whistleblower Raises Concerns Regarding IGT's Accounting Methodology

6. The Whistleblower's concerns at issue related to IGT's accounting for costs associated with refurbished used parts. During the relevant time frame, IGT refurbished used parts in two ways: (1) using outside vendors, and (2) by refurbishing used parts internally with IGT service personnel. The internally refurbished parts were known as "EX" parts. IGT sold a small percentage of the refurbished parts to third-party customers. Approximately 80% of the refurbished parts were transferred to the company's Gaming Operations segment, which was a separately reported business segment on IGT's financial statements responsible for leasing gaming equipment.

7. As of June 2013, IGT used a standard cost model to account for the internally refurbished EX parts. The model estimated the material, labor, and overhead associated for each EX part by assigning a standard cost equal to 35% of the cost of an equivalent new part. This fixed, standard cost did not factor actual material or refurbishment costs.

8. Starting in June 2013, the Whistleblower led several projects concerning the profitability of IGT's used parts business. In particular, the Whistleblower evaluated whether it was cheaper for IGT to refurbish used parts using outside vendors or through internal refurbishment (the "Refurbishment Project").

9. The Whistleblower became concerned that the standard cost model for EX parts was arbitrarily inflated because the 35% standard cost did not consider actual costs—which he believed, based on his understanding of market rates, to be lower than the assigned 35% percentage cost of new parts. Although the Whistleblower was primarily focused on cost savings, he also concluded that the inflated costs were transferred between IGT's business segments. Thus, the Whistleblower had concerns that the cost model could result in inaccuracies in IGT's financial statements, in particular by inflating the cost of sales for Gaming Operations.

10. Ultimately, the Whistleblower estimated that the discrepancy between the actual cost to refurbish the used parts and the standard cost allocated to Gaming Operations' cost of sales was approximately \$10 million, that these inaccuracies were material, and may have persisted for many years.

11. On July 30, 2014, the Whistleblower gave a presentation to the Whistleblower's Supervisors regarding the Refurbishment Project, during which he discussed a slide he prepared regarding the used parts cost model. According to the Whistleblower, he raised the possible impact of the cost model on the accuracy of the company's financial statements and had a heated disagreement with the Executive Supervisor on the issue.

12. Immediately following the meeting, the Executive Supervisor emailed the VP Supervisor regarding the Whistleblower's presentation, stating that "I can't allow [the Whistleblower] to place those inflammatory statements into presentations, if there is no basis in fact."

13. On August 15, 2014, the Executive Supervisor recommended to two vice presidents that the Whistleblower be terminated, one of whom was the VP Supervisor.

14. On August 19, 2014, the Executive Supervisor notified IGT's then chief executive officer that he would terminate the Whistleblower.

The Whistleblower's Complaint and Subsequent Termination

15. On August 20, 2014, the Whistleblower submitted a complaint on IGT's Integrity Action Line ("IAL"), an internal hotline for reporting grievances.² The Whistleblower stated, "[my] summary is the pricing model IGT is using for its Depot parts repairs is misrepresenting our publicly reported financials." He further explained,

With a majority of Depot parts going to internal IGT game operations our internal game operations is paying more than the market rate for the repaired parts for the parts and more than the internal cost for the parts. Conversely, the depot is charging more for parts than it costs to repair them. In most cases, this would not be a problem, but the primary customer is internal. . . . The current system distorts the real accounting and reporting. IGT gaming operations has been subsidizing the service organization.

The Whistleblower also subsequently claimed he was retaliated against for raising these concerns to the Whistleblower's Supervisors.

16. Following the Whistleblower's IAL complaint, an IGT human resources representative directed the Executive Supervisor to put a "hold" on the existing plan to terminate the Whistleblower.

² The Whistleblower submitted a complaint to the Commission on August 21, 2014, and notified IGT on September 11, 2014 that he had done so.

17. IGT conducted an internal investigation with the assistance of outside counsel between August 20, 2014 and October 30, 2014. The internal investigation found that the cost accounting model IGT used relating to used parts was appropriate and did not cause its reported financial statements to be distorted because IGT had a process to reconcile estimated repair costs with actual labor and material costs such that only actual costs were realized by the ultimate recipient of the part.

18. During the pendency of IGT's internal investigation, the Whistleblower was removed from two opportunities he considered significant to performing his job successfully. First, the Executive Supervisor directed a vice-president for another IGT division to remove the Whistleblower from a project associated with IGT's integration with GTECH in anticipation of the merger. Among other things, the project aimed to analyze cost savings and efficiencies that would result from the IGT and GTECH merger, and the Whistleblower's division possessed relevant financial data that would contribute to the analysis. Second, the Whistleblower was directed not to attend an annual global gaming industry convention attended by IGT's major vendors and suppliers, which the Whistleblower had attended in previous years. As a result, the Whistleblower was precluded from meeting with those representatives to evaluate new products and to review existing relationships.

19. On October 30, 2014, IGT terminated the Whistleblower.

VIOLATION

20. As a result of the conduct described above, IGT violated Section 21F(h) of the Exchange Act, which prohibits an employer from discharging, demoting, suspending, threatening, harassing, directly or indirectly, or in any other manner discriminating against, a whistleblower in the terms and conditions of employment because of any lawful act done by the whistleblower in, among other things, providing information regarding potential violations of the securities laws to his employer or to the Commission.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent cease and desist from committing or causing any violations and any future violations of Section 21F(h) of the Exchange Act.

B. Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$500,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying IGT as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to C. Dabney O'Riordan, Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 444 South Flower Street, Suite 900, Los Angeles, California 90071.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of relief by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court or agency in any Related Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Action" means an administrative claim filed with respect to, or a private damages action brought against, Respondent based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary