IGT 1999 Annual Report

Contents


ELVIS
ELVIS
$ 240,004.96
PROGRESSIVE
PLAY 3 COINS
PAYLINE
25¢
THIS MACHINE ACCEPTS
$1 $5 $10 $20 $50 $100 BILLS
DOUBLE DIAMOND

CREATIVE

The ability to create; to bring into existence that which did not exist. From the introduction of video poker and the first S-Plus reel spinning slot to the introduction of Megabucks and hundreds of game themes, creativity has been a hallmark of IGT's success.


KING
STOP
STOP
STOP
POPPER
KING

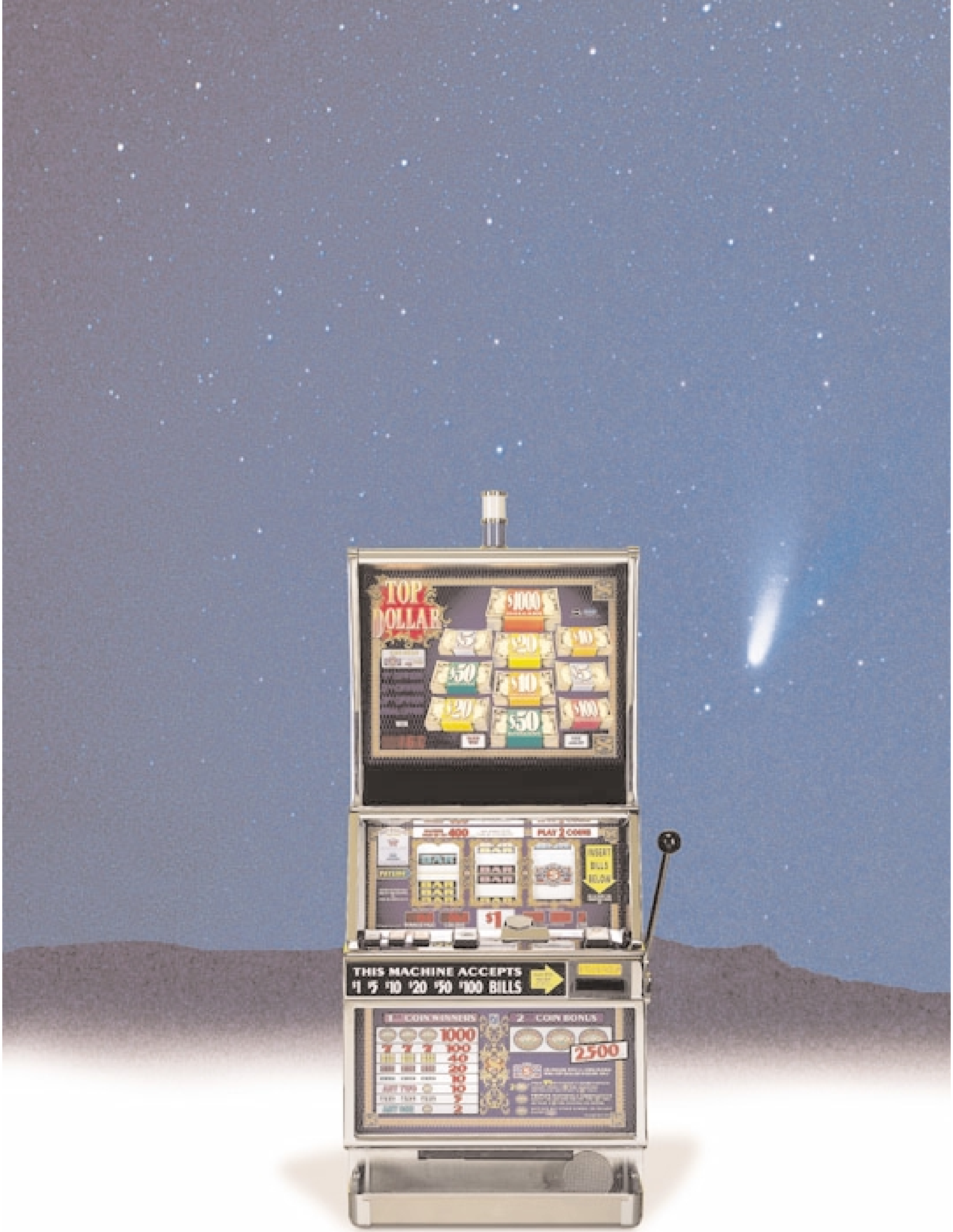
INNOVATIVE

The introduction of something new. Throughout its history, IGT has been on the forefront of innovative ideas and products. Our new Game King video reel machines deliver entertainment to players with colorful new images and vibrant new sounds never before imagined. Technological breakthroughs like the new EZ Pay Ticket System and Multi Denomination game programs provide convenience for both customers and players.


TRIPLE PLAY
DRAW POKER
MULTI HAND
TRIPLE PLAY
DRAW POKER
MULTI HAND

PARTNERSHIP

An alliance or association. For IGT it means strength in numbers. From successful acquisitions to mutually beneficial agreements with partners and even competitors, IGT's partnerships have led to successes like Wheel of Fortune, Triple Play Poker and Elvis slots, and clear the way for technological advancements and new successes in the future.


TOP DOLLAR
PLAY 2 COINS
INSERT BILLS BELOW
THIS MACHINE ACCEPTS
$1 $5 $10 $20 $50 $100 BILLS
2500

GLOBAL LEADERSHIP

The product of creativity, innovations and partnership. From Japan and the UK to Atlantic City and Las Vegas and in every jurisdiction where gaming is legal, IGT is recognized as a world leader in the gaming industry. We accomplish this through the creativity of our people, our innovative products and technology, and the strength of our business allies. Now more than ever, no other company is better positioned to take on the challenges and capitalize on the opportunities that the new millennium holds in store.

To The Shareholders of IGT,

International Game Technology has now begun its last fiscal year of the 20th century. Our company started manufacturing equipment more than 19 years ago as a small entity in Reno, Nevada. We commence the new millennium as the leading supplier of gaming machines and systems to the legalized gaming industry. In our last fiscal year, which ended September 1999, we experienced a period of achievement, but also faced challenging reminders that growth does not come without risk. Our revenues during fiscal 1999 of $930 million, compared to $824 million in fiscal 1998, were the highest in the history of the company.

Our markets expanded during 1999 with the opening of major new casino projects in North America including Beau Rivage in Mississippi; Mandalay Bay, The Venetian and Paris in Las Vegas; and MGM Grand and MotorCity Casino in Detroit. IGT provided approximately 68% (combined percentage) of the total machines for these new casinos. Our markets continued to grow in Canada with the expansion of gaming at Ontario racetracks and in charitable casinos. A new casino, Tigre, also opened in the province of Buenos Aires, Argentina, where we supplied 1,100 machines (89%) for their opening in November.

We continue to identify, develop and advance star performers within IGT, a practice that has led to our success in attracting the highest quality employees. In today's competitive environment, with technology as the key element in the development of new products, this is more important than ever before. During this past year, five long-term employees were promoted to vice president positions. These individuals have a combined tenure with IGT of approximately 60 years. It is extremely gratifying to develop our future leadership and see our employees take on key positions within the Company.

On the operational side, Barcrest, our subsidiary in the United Kingdom, finished its first full year as an IGT subsidiary and reported the best operating profits in its history. Barcrest introduced several popular games during the year and maintained the leading share in the UK market during fiscal 1999. IGT Japan, which started in 1990, also reported its best year ever, with improvements in revenue of more than 200%.

In North America, our Wheel of Fortune® and Triple Play Poker™ games continue to lead the way in popularity with players. Late in the year our product development group in North America debuted several exciting products, employing the use of enhanced video, color, lighting and sounds as well as improved cash handling and multi-denominational coin-handling capabilities. These new products, with their unique and exciting innovations, will be important to our continued growth in the future. At IGT, we are proud of our leadership in game design and have continually introduced entertaining gaming machines that appeal to adult players of our casino customers. Some of our games, such as Wheel of Fortune and Elvis, are popular themes and have proven successful on the casino floor. While themed concepts have received recent scrutiny, we at IGT do not condone underage gaming nor have we ever had any intention of designing product for the purpose of enticing those that are underage.

During the year we completed a senior note offering of $1 billion. The proceeds have been used to pay bank debt; acquire Sodak, our distributor for Native American markets; and continue our stock repurchase program, which we firmly believe benefits our shareholders.

It feels good to talk about our successes, but during the year we faced a number of challenges. The most significant involved the assimilation of Olympic Gaming, which IGT Australia acquired in March of 1998. We suffered losses throughout fiscal 1999, seeing the operations worsen in the latter half of the year. In response, we undertook a restructuring plan that resulted in a fourth quarter non-recurring charge of $93 million, associated with the write-off of intangible assets and the recording of restructuring costs. Our Australian operations are now reorganized under a new management team that will deploy a simplified product strategy and use IGT's manufacturing plant in Reno. We believe these actions will improve the service level to our Australian customers and improve game development capabilities while reducing product costs and overheads, thus paving the way for a more positive financial future for IGT Australia.

We also recorded a $5 million non-recurring charge in the fourth quarter related to changes in gaming regulations in Brazil. In October, a few days after the close of our fiscal year, the President of Brazil rescinded laws allowing gaming machines in this developing market. As near as we can tell, this action was based on perceived irregularities within the Brazilian marketplace. Although the international markets provide growth opportunities, they also present political and economic risks.

As a result of charges related to our international operations in Australia and Brazil, net income for fiscal 1999 was $62 million as compared to $152 million in fiscal 1998. With these actions behind us, we are well positioned to move forward in a positive direction.

Over the past year, we successfully repurchased approximately 22 million shares of IGT stock. The Board of Directors is supportive of this philosophy and also authorized the repurchase of an additional 25 million shares. As part of this plan, the Board of Directors approved a cash tender offer in December of 1999 of 11 million shares at $21. We believe this is the most attractive use of the company's cash and provides a liquidity opportunity to shareholders, while allowing us to pursue our strategic goals.

In closing, we'd like to renew our commitment to serve our customers, employees and the many communities in which we do business. To our shareholders, you have our commitment to provide solid financial performance. Thank you for your ongoing support.

Sincerely,

Charles N. Mathewson
Chairman of the Board
and Chief Executive Officer

G. Thomas Baker
President
and Chief Operating Officer

Selected Financial Data

The following information has been derived from our consolidated financial statements for the years ended:

	October 2,	September 30,			
	1999	1998	1997	1996	1995
(Amounts in thousands, except per share data)					
Selected Income Statement Data					
Total revenues	$ 929,662	$ 824,123	$ 743,970	$ 733,452	$ 620,786
Income from operations	$ 116,318	$ 218,877	$ 191,437	$ 169,833	$ 139,341
Income before extraordinary item	$ 65,312	$ 152,446	$ 137,247	$ 118,017	$ 92,648
Net income	$ 62,058	$ 152,446	$ 137,247	$ 118,017	$ 92,648
Basic earnings per share					
Income before extraordinary item	$ 0.65	$ 1.35	$ 1.14	$ 0.93	$ 0.71
Net income	$ 0.62	$ 1.35	$ 1.14	$ 0.93	$ 0.71
Diluted earnings per share					
Income before extraordinary item	$ 0.65	$ 1.33	$ 1.13	$ 0.93	$ 0.71
Net income	$ 0.62	$ 1.33	$ 1.13	$ 0.93	$ 0.71
Cash dividends declared per common share	$ 0.03	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Weighted average common shares outstanding	99,461	113,064	120,715	126,555	130,198
Weighted average common and potential shares outstanding	100,238	114,703	121,829	127,412	131,094
Selected Balance Sheet Data					
Working capital	$ 762,684	$ 470,003	$ 406,958	$ 488,150	$ 508,917
Total assets	$ 1,765,060	$ 1,543,628	$ 1,215,052	$ 1,154,187	$ 971,698
Long-term notes payable and capital lease obligations	$ 990,436	$ 322,510	$ 140,713	$ 107,155	$ 107,543
Stockholders' equity	$ 242,218	$ 541,276	$ 519,847	$ 623,200	$ 554,090

Results of Operations

We operate principally in two lines of business: the development, manufacturing, marketing and distribution of gaming products (gaming product sales); and the development, marketing and operation of proprietary wide-area progressive systems and gaming equipment leasing (gaming operations).

Fiscal 1999 Compared to Fiscal 1998

Fiscal 1999 net income of $62.1 million or $0.62 per diluted share included certain one-time charges recorded in the fourth quarter totaling $98.1 million ($70.4 million or $0.70 per diluted share, net of tax effects) as discussed below. An extraordinary loss on early redemption of debt of $3.3 million or $0.03 per diluted share was also recognized during fiscal 1999. Net income for the year ended October 2, 1999 before the one-time charges and extraordinary loss totaled $135.7 million or $1.35 per diluted share versus net income of $152.4 million or $1.33 per diluted share in fiscal 1998.

The one-time charges of $98.1 million consist primarily of the write-off of intangible assets of $86.8 million related to IGT-Australia's prior acquisition of Olympic Amusements. (See Note 7 to Notes to Consolidated Financial Statements.) In an effort to return IGT-Australia to a profitable operation, we are currently in the process of a significant restructuring which includes narrowing current product lines and utilizing IGT's Reno, Nevada manufacturing plant to reduce product costs. We recorded restructuring costs of $6.0 million in fiscal 1999 related to this plan, including a $4.0 million inventory obsolescence charge and $2.0 million in asset and facility redundancy costs. We estimate an additional $2.5 million in costs will be incurred during fiscal 2000, resulting from redundancy in our sales, engineering, manufacturing and support departments. We also recorded impairment charges of $5.3 million in fiscal 1999, relating to changes in our recoverability assessment of inventory and receivables in Brazil. The government in Brazil recently rescinded the law allowing gaming devices in bingo halls throughout this market.

Revenues and Cost of Sales

Fiscal 1999 revenues of $929.7 million improved 13% over fiscal 1998 revenues of $824.1 million. This improvement resulted from a 21% increase in product sales revenue as well as a 2% increase in gaming operations revenue.

We shipped 116,000 gaming machines for total product sales revenues of $576.6 million in fiscal 1999 compared to 77,000 units for $477.0 million in the prior fiscal year. Domestic shipments totaled 41,100 units for the year ended October 2, 1999 compared to 37,800 units in the year earlier period. The four major new casino openings in the Las Vegas, Nevada market as well as growth in the Canadian and Native American markets, positively impacted domestic product sales during 1999. Current year shipments to new Las Vegas properties included Park Place's Paris Resort, The Resort at Summerlin, Circus Circus' new Mandalay Bay and the Venetian Resort. Also contributing to the current year improvement were shipments of 3,000 machines to the Ontario Lottery Commission and 1,800 machines to the new MGM and Circus Circus casinos in Detroit, Michigan. Domestic revenues for the current fiscal period also benefited from increased demand in the Native American market. In June 1999, we became a licensed manufacturer for Native American venues in Washington. Current year sales included 1,500 games for a market share of approximately 93% to a Washington licensee who designs and markets gaming machines for placement in eight Native American casinos.

International shipments of 74,900 machines accounted for 65% of total units, the highest percentage in our history, compared to 39,200 machines in fiscal 1998. This 91% growth in international unit shipments was driven primarily by Japan and Barcrest which contributed increased shipments of approximately 18,400 units each. Growth in Japanese pachisuro sales were driven by the introduction of popular game themes including Popper King, Dynamite and Elvis. Current year shipments for Barcrest, which was acquired in March 1998, include a full year of results. Machine shipments in the Australia market totaled 6,700 units in fiscal

1999 compared to 6,200 machines last year. The lack of anticipated growth in the current year unit sales as a result of the Olympic acquisition influenced our assessment of the IGT-Australia intangible asset impairment.

The gross margin on product sales was 37% in the current year period compared to 41% in fiscal 1998. This fluctuation is the result of an increase in the mix of new domestic product lines, including Game King and Vision, which have lower gross margin percentages yet higher gross margin dollars along with increased obsolescence expense domestically. The gross margin was also impacted by the higher percentage of international sales during 1999 which are typically at lower gross margins.

Gaming operations revenue for the year ended October 2, 1999 totaled $353.1 million compared to $347.1 million in fiscal 1998. This growth primarily resulted from joint venture activities. The total installed base of gaming machines operating on our MegaJackpot systems at October 2, 1999 increased to 15,100 games on 137 systems from 13,900 machines on 92 systems at the end of fiscal 1998. Joint venture games including Wheel of Fortune contributed $78.3 million to total gaming operations revenues. During the year we began operating MegaJackpot systems in two new jurisdictions, Iowa and Michigan. We introduced 36 new systems in nine jurisdictions during the year including Slotopoly, Elvis, Party Time and Triple Play Poker in MegaJackpots format in Atlantic City. The introduction of these new systems in various jurisdictions offset the decrease in revenue of other maturing systems. We continue to pursue additional markets, domestically and internationally, for linked progressive games.

The gross margin on gaming operations revenues was 60% compared to 54% in the prior fiscal year. This improvement was due primarily to profits from joint venture activities which, for accounting purposes, are reported net of expenses in gaming operations revenues. Additionally, higher average interest rates lowered the cost of funding jackpot payments.

Expenses

Fiscal 1999 operating expenses totaled $813.3 million including the $98.1 million impairment of assets and restructuring charges. Operating expenses before the one-time charges discussed above as a percent of total revenue were 22% in fiscal 1999 compared to 20% in fiscal 1998. The $23.3 million increase in selling, general and administrative expenses reflects the inclusion of operating expenses attributable to the businesses acquired in the UK and Australia in March 1998, along with increased wages, professional services and domestic advertising, marketing, and compliance expenses related to new product offerings.

Depreciation and amortization expenses totaled $24.0 million in the current year compared to $18.6 million in fiscal 1998. This increase was primarily due to amortization of goodwill and additional depreciation of the acquired assets.

Research and development expenses increased $7.4 million compared to the prior year due to the inclusion of a full year of Barcrest UK and Olympic operations along with higher engineering expenditures domestically related to the development of over 30 new games. Bad debt expense increased $3.4 million over fiscal 1998 due to growth in product sales as well as additional reserves for gaming operations activities.

Other Income and Expense

Other expense, net for the current year totaled $14.9 million and was impacted by interest expense of $31.2 million on the $1.0 billion Senior Notes issued in May 1999. Other income, net for the comparable prior year period totaled $15.7 million which included a gain on the sale of the IGT-Australia manufacturing facility of $10.4 million. Operation of our MegaJackpot systems results in interest income from both the investment of cash and from investments purchased to fund jackpot payments. Interest expense on the jackpot liability is accrued at the rate earned on the investments purchased to fund the liability. Therefore, interest income and expense relating to funding jackpot winners are similar and increase at approximately the same rate based on the growth in total jackpot winners.

Business Segments Operating Profit (See Note 19 of Notes to Consolidated Financial Statements)
Manufacturing and gaming operations operating profit reflects an allocation of selling, general, administrative and engineering expenses to each of these business segments.

Manufacturing operating loss was $46.9 million for the year ended October 2, 1999 including the one-time charges for impairment and restructuring of $98.1 million. Manufacturing operating profit before these charges totaled $50.8 million compared to $81.0 million in the prior period. This fluctuation resulted from a decline in the gross margin to 37% from 41% in the prior year as well as increased domestic advertising, marketing and compliance expenses, increased selling expenses in Japan and the inclusion of a full year of operating expenses from Barcrest and Olympic. Fiscal 1999 gaming operations operating profit increased $13.1 million or 8% compared to the prior year period. This improvement resulted primarily from the continued popularity of Wheel of Fortune and higher average interest rates which resulted in lower costs of funding jackpot payments.

Fiscal 1998 Compared to Fiscal 1997
Net income for the year ended September 30, 1998 totaled $152.4 million or $1.33 per diluted share compared to $137.2 million or $1.13 per diluted share for fiscal 1997. Continued growth in proprietary systems revenue and increased international product sales, primarily due to acquisitions, were the most significant contributors to the 11% improvement in net income over the prior year period.

Revenues and Cost of Sales
Fiscal 1998 revenues of $824.1 million improved 11% over fiscal 1997 revenues of $744.0 million. This improvement resulted from a 23% increase in gaming operations revenues as well as a small increase in product sales.

We shipped 77,000 gaming machines for total product sales revenues of $477.0 million in fiscal 1998 compared to 79,300 units for $461.2 million in the prior fiscal year. Domestic revenues were influenced by a shift in demand to IGT's newer, more advanced product lines such as the Game King, S-Plus Limited and Vision machines. Due to the advanced features and components of these products, they carry a higher average price per unit. The percentage of new product lines increased to 43% of total domestic units sold for fiscal 1998, compared to 10% in the prior year, resulting in higher average revenue per unit overall. Domestic shipments totaled 37,800 units for the year ended September 30, 1998 compared to 54,000 units in the year earlier period. We maintained our market share in domestic markets where fewer new casino openings and expansions slowed growth in fiscal 1998. Fiscal 1998 domestic shipments included 5,900 units to Sodak, IGT's distributor to Native American markets, and 2,100 machines shipped to Bellagio, Mirage Resorts' newest luxury resort in Las Vegas.

International unit shipments of 39,200 accounted for 51% of total units compared to 25,300 in fiscal 1997. International unit shipments improved 55% due primarily to acquisitions along with improved sales in South Africa and Latin America. Barcrest, IGT's subsidiary in the U.K., sold 13,100 units since its acquisition by IGT in March 1998. Machine shipments to Argentina and other Latin America markets increased to 4,300 units in the current year, 1,000 more than in fiscal 1997. IGT sold 1,600 units in the South African market including sales to newly licensed casinos in the Gauteng province. Shipments to other international jurisdictions including Europe, Japan and Asia remained consistent or increased slightly year over year. Machine shipments in the Australia market totaled 6,200 units in fiscal 1998, including 2,000 Olympic machines, compared to 7,700 units in fiscal 1997.

The gross margin on product sales was 41% in the current year period compared to 44% in fiscal 1997. This fluctuation is the result of an increase in the mix of new product lines, including Game King, S-Plus Limited and Vision, which have lower gross margin percentages yet higher gross margin dollars. The gross margin was also impacted by the higher percentage of international sales during 1998 which are typically at lower gross margins.

Gaming operations revenue totaled $347.1 million in fiscal 1998 and $282.8 million in fiscal 1997. This 23% increase was the result of continued popularity of Wheel of Fortune, strong play on Nevada Megabucks and the introduction of new systems. The total installed base of gaming machines operating on IGT's MegaJackpot systems at September 30, 1998 increased to 13,900 games on 92 systems from 11,700 machines on 67 systems at the end of fiscal 1997. Joint venture games including Wheel of Fortune contributed $65.2 million to total gaming operations revenues. Joint venture results are reported net of expenses in gaming operations revenue. The Nevada Megabucks jackpot attained record levels in 1998 contributing to the year over year improvement in gaming operations revenues. IGT introduced 15 new systems in 11 jurisdictions during the year including Slotopoly in Nevada and Jeopardy! in six jurisdictions. The current year also benefited from a full year of operation of MegaJackpots in Missouri where linked progressive systems were introduced in June 1997.

The gross margin on gaming operations revenues was 54% compared to 49% in the prior fiscal year. This improvement was due primarily to profits from joint venture activities which, for accounting purposes, are reported net of expenses in gaming operations revenues. However, declining interest rates for the year resulted in higher costs for the interest-sensitive assets which we purchase to fund jackpot payments.

Expenses

Operating expenses as a percent of total revenue were 20% in both fiscal 1998 and 1997. The $7.6 million increase in selling, general and administrative expenses reflects the additional operating expenses of Barcrest and Olympic. Domestic selling, general and administrative expenses remained consistent with the prior year. Depreciation and amortization expenses totaled $18.6 million in the current year compared to $11.8 million in fiscal 1997. This increase reflects the amortization of the excess of the purchase price over the net assets acquired in the Barcrest and Olympic acquisitions as well as additional depreciation on the acquired assets.

Research and development expenses increased $7.0 million relative to the prior year. The additional research and development centers in the U.K. and Australia, along with our commitment to new product development domestically, contributed to a 50% increase in research and development personnel from the prior year. Bad debt expense declined relative to the prior year as we aligned the receivable reserve with favorable collection experience.

Other Income and Expense

Other income and expense decreased $5.5 million to $15.7 million for the year compared to $21.2 million for the prior year. This decrease is primarily due to increased interest costs of $5.2 million on the corporate and Australian lines of credit due to borrowings related to the acquisitions of Barcrest and Olympic and treasury stock purchases. Operation of our MegaJackpot systems results in interest income from both the investment of systems cash and from investments purchased to fund jackpot payments. Interest expense on the jackpot liability is accrued at the rate earned on the investments purchased to fund the liability. Therefore, interest income and expense relating to funding jackpot winners are equal and increase at the same rate based on the growth in total jackpot winners. Interest income from investment of systems cash increased $2.4 million over fiscal 1997 as a result of growth in proprietary systems.

We sold our Australian manufacturing and office facility at a gain of approximately $10.4 million during the year. The Company leases back approximately one third of the facility for its Australian operations. The gain on the sale of assets in the prior period related to sales of investment securities.

Business Segments Operating Profit (See Note 19 of Notes to Consolidated Financial Statements)

Manufacturing and gaming operations operating profit reflects an allocation of selling, general, administrative and engineering expenses to each of these business segments.

Manufacturing operating profit was $81.0 million for the year ended September 30, 1998 compared to $105.6 million in the prior period. This fluctuation resulted from a 3% decline in product sales gross margin due to lower unit sales volume and an increase in the sales of new product lines that have a lower gross margin. A higher percentage of international sales, which typically have lower gross margins, also impacted operating profit for the manufacturing segment.

Fiscal 1998 gaming operations operating profit increased $54.1 million or 46% compared to the prior year period. This improvement resulted primarily from the continued popularity of Wheel of Fortune and strong play on Nevada Megabucks. Higher costs of interest-sensitive assets purchased to fund jackpot payments partially offset the overall increase.

Foreign Operations

Approximately 45% of our total product sales in fiscal 1999 and 39% in fiscal 1998 were derived outside of North America. To date, we have not experienced significant translation or transaction losses related to foreign exchange fluctuations.

Financial Condition, Liquidity and Capital Resources

We believe that existing cash balances, short-term investments and available borrowing capacity together with funds generated from operations will be sufficient to meet operating requirements for the next twelve months. IGT's unrestricted cash and short-term investments are available for strategic investments, mergers and acquisitions, as well as to fund our stock repurchase program.

Working Capital

Working capital increased $292.7 million to $762.7 million since the prior year end due primarily to excess proceeds from the $1.0 billion Senior Notes issued in May 1999. Investments to fund liabilities to jackpot winners and the corresponding jackpot liabilities decreased due to payments to prior jackpot winners who elected a discounted single cash payment in lieu of annual installments. Additional changes in current assets contributed to the overall fluctuation in working capital including an increase in accounts receivable, offset by inventory reductions. Both were the result of sales volumes. Changes in current liabilities included a decrease in current maturities of long-term debt resulting from the repayment of outstanding debt with proceeds from the $1.0 billion Senior Notes issued in May 1999. The decrease in current maturities of long-term debt was partially offset by increases in other current liabilities, including accrued income taxes and accrued interest on new borrowings.

Cash Flows

IGT's cash and cash equivalents totaled $426.3 million at October 2, 1999, a $250.9 million increase from the prior fiscal year end. Cash provided by operating activities totaled $261.4 million in fiscal 1999, $107.1 million in fiscal 1998 and $118.1 million in fiscal 1997. During these periods, fluctuations in receivables and inventories were influenced by sales volumes and timing and resulted in the most significant changes in cash flows from operating activities.

Our proprietary systems provide cash through collections from systems to fund jackpot liabilities and from maturities of US government securities purchased to fund jackpot liabilities. Cash is used to make payments to jackpot winners or to purchase investments to fund liabilities to jackpot winners. These activities used cash of $21.3 million in the current year. The net cash provided for fiscal 1998 was $36.3 million and $28.2 million for fiscal 1997.

Fiscal 1999 cash flows from operating activities increased due to the realization of deferred tax assets related to the timing of the tax deductibility of jackpot payments. Federal legislation was passed in October 1998 which allows jackpot winners to receive the discounted value of progressive jackpots won in lieu of annual installments.

The primary use of investing cash in the current year related to the acquisition of businesses (see Note 2 to Notes to Consolidated Financial Statements.) Uses of cash from investing activities also included purchases of property, plant and equipment totaling $17.8 million in fiscal 1999, $16.8 million in fiscal 1998 and $33.1

million in fiscal 1997. Capital expenditures in fiscal 1997 related primarily to the construction of our manufacturing and administrative facilities in Reno, Nevada.

The primary use of financing cash in the current year related to treasury stock purchases of $361.4 million. Purchases of treasury stock were $122.2 million in fiscal 1998 and $225.5 million in fiscal 1997. Proceeds from additional borrowings of $622.8 million, net of repayments on outstanding lines of credit and Senior Notes redeemed, were used primarily to fund stock repurchases and working capital. Net borrowings in the prior year period were used primarily to acquire businesses and purchase treasury shares.

Stock Repurchase Plan

A stock repurchase plan was originally authorized by our Board of Directors in October 1990. As of November 30, 1999, IGT could purchase an additional 25.1 million shares under the authorization as modified by the Board of Directors. During fiscal 1999, we repurchased 21.8 million shares for an aggregate purchase price of $361.4 million. During fiscal 1998, we repurchased 5.5 million shares for an aggregate purchase price of $122.2 million. During the period of October 3, 1999 through November 30, 1999, we purchased 1.4 million shares for an aggregate purchase price of $26.7 million.

Reclassifications

Certain amounts in the 1998 and 1997 consolidated financial statements have been reclassified to be consistent with the presentation used in fiscal year 1999.

Impact of Inflation

Inflation has not had a significant effect on the Company's operations during the three fiscal years in the period ended October 2, 1999.

Trademarks

The following trademarks are owned by IGT and are registered with the US Patent and Trademark Office: International Game Technology; IGT; the IGT logo with spade design; Double Diamond; Megabucks; Player's Edge-Plus; and Red, White & Blue. IGT also owns the trademark rights to the following: Game King; iGame with Design (interactive gaming); IGS; IGT Gaming systems; MegaJackpots; Nickels Deluxe; Slot Line; S-Plus Limited Series; Super Megabucks; Totem Pole; Vision Series; and Vision Slot. Elvis and Wheel of Fortune are registered trademarks of Califon Productions, Inc. Jeopardy! is a registered trademark of Jeopardy Productions, Inc. Five-Deck Frenzy is a trademark of Shufflemaster.

Year 2000

The term Y2K is used to refer to a worldwide computer-related problem where software programs and embedded programs in computer systems will not work properly when processing a date later than December 31, 1999. If IGT or its customers, suppliers, or other third parties fail to make corrections for programs that have defined dates using a two-digit year, this could result in system failure or malfunction of certain computer equipment, software, and other devices dependent upon computerized mechanisms that are date sensitive. This problem may cause disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. Assessments of the potential cost and effects of Year 2000 issues vary significantly among businesses, and it is difficult to predict the actual impact. Recognizing this uncertainty, we have and are continuing to actively analyze, assess, and plan for various Year 2000 contingencies across our Company.

We have undertaken various initiatives intended to ensure that our computer equipment and software will function properly with respect to dates in and beyond the Year 2000. Information technology ("IT") systems impacted by the Year 2000 issue include systems commonly thought of as IT systems, such as accounting, data processing and telephone/PBX systems, as well as systems that are not commonly thought of as IT systems, such as alarm systems, security systems, fax machines, mail machines, automated assembly lines, and other miscellaneous systems. Both IT and non-IT systems may contain imbedded technology which compounds the identification, assessment, remediation, and testing efforts.

We are utilizing both internal and external resources to accomplish our Year 2000 plan, which began in December 1997. With the exception of IGT-Australia, we are substantially complete. We estimate that as of November 26, 1999, we had completed approximately 95% of the initiatives necessary to fully address potential Year 2000 issues. The remaining project efforts are underway and we anticipate these will be completed prior to any currently anticipated impact on our computer equipment and software.

All of our subsidiaries have performed the identification, assessment, remediation and testing phases. We have identified our largest manufacturing locations, IGT (North America), IGT-Australia, IGT-Japan and IGT-UK as critical operating locations as most other subsidiaries are dependent upon these locations. IGT uses an AS400 for the majority of its North American software applications, including the manufacturing process, and has identified this as a critical system. The Y2K readiness project efforts on the AS400 system are complete. IGT-UK has finished the implementation of Oracle as an enterprise wide improvement to its information systems and a resolution to Y2K readiness issues. We engaged third parties to review the IGT and IGT-UK information systems plans. Their recommendations have been incorporated into our plan. IGT-Japan utilizes a third party to manufacture its products and has received assurance that this manufacturer is Year 2000 ready. IGT-Australia restructured its information systems department under a new director in the third fiscal quarter and has now completed its assessment phase of its Year 2000 efforts. IGT-Australia's Y2K project plan is complete with regard to internal business systems. The remediation of their gaming systems is now fully underway and scheduled for completion by December 15, 1999. In addition, we have assessed the risk and reviewed Year 2000 readiness plans of Sodak (see Note 2 to Notes to Consolidated Financial Statements). Sodak has implemented the integrated Oracle application system as an enterprise-wide improvement to their information systems and a resolution to Year 2000 processing requirements. The majority of their application systems have been tested and remediated. At this stage, we believe that our Year 2000 deficiencies will be remedied through computer equipment and software replacement or modification in a timely fashion.

We have also initiated efforts to ensure the readiness of our products and services. As part of our assessment of current products and services, we have completed upgrading all wide-area progressive jackpot system software in all jurisdictions. All of our customers who may have products with Year 2000 readiness issues have been notified.

We have also surveyed our key vendors and service providers to determine the extent to which interfaces with these entities make us vulnerable to Year 2000 issues. As of November 26, 1999, we received responses from approximately 95% of such third parties. The majority of these entities provided assurances that they are either Year 2000 ready or expect to address all their significant Year 2000 issues on a timely basis. We continue to follow-up with significant vendors and service providers that did not initially respond, or whose responses were deemed unsatisfactory by us. While we have developed a system of communicating with vendors to understand their ability to continue providing services and products through the Year 2000 without interruption, there can be no assurance that the systems of other companies on which we may rely will be timely converted or that such failure to convert by another company would not have an adverse effect on our systems.

At this time, we do not believe that the cost of our Year 2000 efforts will exceed $3.0 million, which will be funded from operating cash flows. Approximately $2.2 million of this total was for the replacement of non-compliant equipment and software which we capitalized as fixed assets in fiscal 1999. As of November 26, 1999, we spent approximately $2.4 million, including the cost of third party reviews. Two of our subsidiaries have implemented enterprise wide information system improvements which will also resolve Year 2000 issues. These costs were not included in the above amount because the implementations were not initiated specifically to resolve the Year 2000 issue. A major portion of the software remediation costs are not likely to be incremental to our results of operations, but will represent the redeployment of existing information technology and other resources. As a result of the redeployment of internal resources for the Year 2000 remediation efforts, certain enhancements of our current systems may be postponed. We do not anticipate the postponement of these enhancements to have a significant impact on our financial condition or results of operations.

The Year 2000 issue presents a number of other risks and uncertainties that could impact IGT, including, but not limited to third parties whose services we rely upon to produce and sell our products, such as key suppliers and customers, public utilities, telecommunication providers, financial institutions, or certain regulators of the various jurisdictions where we do business. Failure or interruption of any of these services could result in lost production, sales, or administrative difficulties on the part of IGT. We believe that the implementation of new business systems and the completion of the Year 2000 project as scheduled will significantly reduce the risk of operational difficulties within our operating systems, facilities and products. The majority of our application systems have been remedied and tested. In those instances where completion by the end of 1999 is not assured, we have contingency plans in place or that are in the final stages of development. Our Y2K contingency plans include manual processing procedures and additional stand-by IS support staff incorporated within our existing disaster recovery plans. Our Year 2000 project teams are reviewing the support which may be necessary during the first week of the new year to investigate non-functioning applications, remediate and test the programs, and implement the corrected applications. In addition, manual back-up procedures are being considered in user areas to ensure continuity of essential business operations. We believe that our most reasonably likely exposure to Year 2000 readiness issues is in the IGT-Australia gaming systems. IGT-Australia is remediating these systems and preparing a contingency plan. While we continue to believe the Year 2000 issues will not materially affect our consolidated financial position or results of operations, it remains uncertain as to what extent, if any, we may be impacted.

Quantitative and Qualitative Factors about Market Risk

Market Risk

Under established procedures and controls, the Company enters into contractual arrangements, or derivatives, in the ordinary course of business to hedge its exposure to foreign exchange rate and interest rate risk. The counterparties to these contractual arrangements are major financial institutions. Although the Company is exposed to credit loss in the event of nonperformance by these counterparties, management believes that losses related to counterparty credit risk is not likely.

Foreign Currency Risk

We routinely use forward exchange contracts to hedge our net exposures, by currency, related to the monetary assets and liabilities of our operations denominated in non-functional currency. The primary business objective of this hedging program is to minimize the gains and losses resulting from exchange rate changes. At October 2, 1999 and September 30, 1998, IGT had net foreign currency transaction exposure of $41.7 million and $54.8 million, respectively. In fiscal 1999 and 1998, $38.8 million and $43.7 million of the exposure was hedged with currency forward contracts. In addition, from time to time, we may enter into forward exchange contracts to establish with certainty the US dollar amount of future firm commitments denominated in a foreign currency.

Given our balanced foreign exchange position, a ten percent adverse change in foreign exchange rates upon which these contracts are based would result in exchange gains and losses from these contracts that would, in all material aspects, be fully offset by exchange gains and losses on the underlying net monetary exposures for which the contracts are designated as hedges.

As currency exchange rates change, translation of the income statements of IGT's international businesses into US dollars affects year-over-year comparability of operating results. IGT does not generally hedge translation risks because cash flows from international operations are generally reinvested locally. IGT does not enter into hedges to minimize volatility of reported earnings.

Changes in the currency exchange rates that would have the largest impact on translating IGT's international operating results include the Australian dollar, British pound and the Japanese yen. We estimate that a 10% change in foreign exchange rates would impact reported operating results by less than $1.0 million. This sensitivity analysis disregards the possibility that rates can move in opposite directions and that gains from one area may or may not be offset by losses from another area.

Interest Rate Risk
IGT's results of operations are exposed to fluctuations in the costs of US Government securities used to fund liabilities to jackpot winners. IGT records gaming operations expense for future jackpots based on current rates for these US government securities which are impacted by market interest rates and other economic conditions. Therefore, the gross profit on gaming operations decreases when interest rates decline. Management estimates that a 10% decline in interest rates would impact gaming operations gross profit by $3.4 million. IGT currently does not manage this exposure with derivative financial instruments. The $1.0 billion Senior Notes issued in May 1999 carry interest at fixed rates. If interest rates increased by 10%, then the fair market value of the Notes would decrease approximately $45 million.

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

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

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

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

- the limitation, conditioning, suspension or revocation of any of our gaming licenses;
- fluctuations in foreign exchange rates, tariffs and other barriers;
- adverse changes in the credit worthiness of parties with whom IGT has forward currency exchange contracts;
- the loss of sublessors of the leased properties no longer used by IGT;
- IGT's inability to successfully remedy the Year 2000 readiness issue; and,
- with respect to legal actions pending against IGT, the discovery of facts not presently known to IGT or determinations by judges, juries or other finders of fact which do not accord with IGT's evaluation of the possible liability or outcome of existing litigation.

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

IGT incurred significant additional indebtedness in 1999

In May 1999, we completed the issuance of $1.0 billion of Senior Notes. Our significant additional indebtedness could have important consequences, including: increasing our vulnerability to general adverse economic and industry conditions; limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and other general corporate requirements; requiring a substantial portion of our cash flow from operations for the payment of interest on our indebtedness and reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions and general corporate requirements; limiting our flexibility in planning for, or reacting to, changes in our business and the industry; and disadvantaging us compared to competitors with less indebtedness.

Our ability to meet our debt service obligations on the Senior Notes and our other indebtedness will depend on our future performance. In addition, our bank revolving line of credit requires us to maintain specified financial ratio tests. Our ability to maintain such ratio tests will also depend on our future performance. Our future performance will be subject to general economic conditions and to financial, business, regulatory and other factors affecting our operations, many of which are beyond our control. If we were unable to maintain the financial ratio tests under the bank revolving line of credit, the lenders could terminate their commitments and declare all amounts borrowed, together with accrued interest and fees, to be immediately due and payable. If this happened, other indebtedness that contains cross-default or cross-acceleration provisions, including the Senior Notes, may also be accelerated and become due and payable. If any of these events should occur, we may not be able to pay such amounts and the Senior Notes.

National Gambling Impact Study Commission

The National Gambling Impact Study Commission (the "NGIC") was created in August 1996 to conduct a comprehensive legal and factual study of the social and economic impacts of gambling on federal, state, local and Native American tribal governments and on communities and social institutions. On April 28, 1999, the NGIC voted 5-4 to recommend "a pause" in the growth of legalized gambling and encourage state and local governments to form their own gambling study commissions. The NGIC released its Final Report in June 1999. The Report concluded that gaming issues, except Internet gaming, are not to be settled at the national level, but rather are more appropriately addressed at the state, tribal and local levels. IGT is unable, at this time, to determine the ultimate disposition of any of the recommendations contained in the Final Report or the impact of the results of this Report on IGT.

Consolidated Statements of Income

(Amounts in thousands except per share amounts)	Years Ended October 2, 1999	September 30, 1998	September 30, 1997
Revenues			
Product sales	$ 576,598	$ 477,024	$ 461,150
Gaming operations	353,064	347,099	282,820
Total revenues	929,662	824,123	743,970
Costs and Expenses			
Cost of product sales	365,948	279,337	256,480
Cost of gaming operations	142,497	158,528	145,245
Selling, general and administrative	129,211	105,945	98,380
Depreciation and amortization	23,955	18,635	11,846
Research and development	45,462	38,066	31,074
Provision for bad debts	8,153	4,735	9,508
Impairment of assets and restructuring charges	98,118	–	–
Total costs and expenses	813,344	605,246	552,533
Income from Operations	116,318	218,877	191,437
Other Income (Expense)			
Interest income	55,525	45,346	41,738
Interest expense	(72,764)	(41,049)	(30,422)
Gain on investments	5,438	1,031	12,885
Gain (loss) on the sale of assets	(562)	10,115	(24)
Other	(2,562)	212	(2,989)
Other income (expense), net	(14,925)	15,655	21,188
Income Before Income Taxes and Extraordinary Item	101,393	234,532	212,625
Provision for Income Taxes	36,081	82,086	75,378
Income Before Extraordinary Item	65,312	152,446	137,247
Extraordinary Loss on Early Redemption of Debt, Net of Income Tax Benefit of $1,640	(3,254)	–	–
Net Income	$ 62,058	$ 152,446	$ 137,247
Basic Earnings Per Share			
Income before extraordinary item	$ 0.65	$ 1.35	$ 1.14
Extraordinary loss	(0.03)	–	–
Net income	$ 0.62	$ 1.35	$ 1.14
Diluted Earnings Per Share			
Income before extraordinary item	$ 0.65	$ 1.33	$ 1.13
Extraordinary loss	(0.03)	–	–
Net income	$ 0.62	$ 1.33	$ 1.13
Weighted Average Common Shares Outstanding	99,461	113,064	120,715
Weighted Average Common and Potential Shares Outstanding	100,238	114,703	121,829

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

Consolidated Balance Sheets

(Dollars in thousands)	October 2, 1999	September 30, 1998
Assets		
Current assets		
Cash and cash equivalents	$ 426,343	$ 175,413
Investment securities, at market value	18,546	19,354
Accounts receivable, net of allowances for doubtful accounts of $8,904 and $5,512	193,479	189,521
Current maturities of long-term notes and contracts receivable, net of allowances	74,987	63,022
Inventories, net of allowances for obsolescence of $23,901 and $18,574:		
Raw materials	60,616	73,749
Work-in-process	4,902	3,746
Finished goods	51,094	55,659
Total inventories	116,612	133,154
Investments to fund liabilities to jackpot winners	27,702	41,216
Deferred income taxes	23,977	16,517
Assets held for sale	42,292	–
Prepaid expenses and other	51,302	32,346
Total Current Assets	975,240	670,543
Long-term notes and contracts receivable, net of allowances and current maturities	60,870	37,750
Property, plant and equipment, at cost		
Land	19,938	19,406
Buildings	76,050	71,136
Gaming operations equipment	87,499	73,222
Manufacturing machinery and equipment	114,912	109,576
Leasehold improvements	5,361	4,955
Total	303,760	278,295
Less accumulated depreciation and amortization	(121,644)	(109,542)
Property, plant and equipment, net	182,116	168,753
Investments to fund liabilities to jackpot winners	235,230	369,427
Deferred income taxes	89,474	131,708
Intangible assets	152,036	131,552
Other assets	70,094	33,895
Total Assets	$1,765,060	$1,543,628
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term notes payable and capital lease obligations	$ 3,278	$ 30,311
Accounts payable	55,705	57,277
Jackpot liabilities	41,130	50,659
Accrued employee benefit plan liabilities	23,746	17,512
Accrued interest	30,684	1,106
Other accrued liabilities	58,013	43,675
Total Current Liabilities	212,556	200,540
Long-term notes payable and capital lease obligations, net of current maturities	990,436	322,510
Long-term jackpot liabilities	316,826	479,217
Other liabilities	3,024	85
Total Liabilities	1,522,842	1,002,352
Commitments and contingencies (See Note 13)		
Stockholders' equity		
Common stock, $.000625 par value; 320,000,000 shares authorized; 152,871,297 and 152,586,560 shares issued	96	95
Additional paid-in capital	261,941	256,656
Retained earnings	886,392	827,542
Treasury stock; 65,515,867 and 43,721,200 shares, at cost	(897,234)	(535,797)
Accumulated other comprehensive loss	(8,977)	(7,220)
Total Stockholders' Equity	242,218	541,276
Total Liabilities and Stockholders' Equity	$1,765,060	$1,543,628

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

Consolidated Statements of Cash Flows

(Dollars in thousands)	Years Ended October 2, 1999	September 30, 1998	September 30, 1997
Cash Flows from Operating Activities			
Net income	$ 62,058	$ 152,446	$ 137,247
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary loss on debt retirement	4,894	–	–
Depreciation and amortization	52,330	41,468	35,024
Amortization of discounts and deferred offering costs	879	–	–
Provision for bad debts	8,153	4,735	9,508
Impairment of assets and restructuring charges	98,118	–	–
Provision for inventory obsolescence	19,185	9,173	10,022
Gain on investment securities and fixed assets	(4,876)	(11,146)	(12,861)
Common stock awards	1,005	1,973	2,636
(Increase) decrease in assets, net of effects from acquisitions of businesses:			
Receivables	17,257	8,585	(25,166)
Inventories	(23,308)	(54,664)	(14,260)
Prepaid expenses and other	(21,867)	(21,696)	6,875
Other assets	(8,841)	6,473	467
Net deferred income tax asset, net of tax benefit of employee stock plans	38,165	(22,343)	(29,357)
Increase in accounts payable and accrued liabilities, net of effects from acquisitions of businesses	13,481	6,187	11,253
Earnings of unconsolidated affiliates (in excess of) less than distributions	4,806	(14,042)	(13,172)
Other	–	(23)	(134)
Total adjustments	199,381	(45,320)	(19,165)
Net cash provided by operating activities	261,439	107,126	118,082
Cash Flows from Investing Activities			
Investment in property, plant and equipment	(17,751)	(16,828)	(33,088)
Proceeds from sale of property, plant and equipment	2,988	24,452	6,579
Purchase of investment securities	(12,510)	(15,191)	(27,898)
Proceeds from sale of investment securities	11,957	12,528	78,338
Proceeds from investments to fund liabilities to jackpot winners	194,957	40,286	36,100
Purchase of investments to fund liabilities to jackpot winners	(43,589)	(102,122)	(113,224)
Investment in unconsolidated affiliates	(26,229)	(1,422)	(3,379)
Acquisition of businesses	(198,860)	(181,764)	–
Net cash used in investing activities	(89,037)	(240,061)	(56,572)
Cash Flows from Financing Activities			
Proceeds from long-term debt	1,636,276	624,199	63,185
Principal payments on debt	(1,013,484)	(430,018)	(11,425)
Payments on jackpot liabilities	(259,280)	(40,286)	(36,100)
Collections from systems to fund jackpot liabilities	86,565	138,442	141,467
Proceeds from employee stock plans	3,693	7,484	3,671
Purchases of treasury stock	(361,419)	(122,180)	(225,474)
Penalties paid on early retirement of debt	(4,658)	–	–
Payments of cash dividends	(6,474)	(13,594)	(14,526)
Net cash provided by (used in) financing activities	81,219	164,047	(79,202)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2,691)	(7,470)	(437)
Net Increase (Decrease) in Cash and Cash Equivalents	250,930	23,642	(18,129)
Cash and Cash Equivalents at:			
Beginning of Year	175,413	151,771	169,900
End of Year	$ 426,343	$ 175,413	$ 151,771

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

Consolidated Statements of Changes in Stockholders' Equity

(Amounts in thousands)	Years Ended October 2, 1999	September 30, 1998	September 30, 1997
Common Stock			
Balance at beginning of year 152,587; 151,883; and 150,690 shares	$ 95	$ 95	$ 94
Employee stock plans 284; 704; and 1,193 shares	1	–	1
Balance at end of year 152,871 shares at 1999	$ 96	$ 95	$ 95
Additional Paid-In Capital			
Balance at beginning of year	$ 256,656	$ 243,950	$ 237,365
Employee stock plans	3,710	7,484	3,671
Common stock awards	1,005	1,973	2,636
Tax benefit of employee stock plans	570	3,249	278
Balance at end of year	$ 261,941	$ 256,656	$ 243,950
Retained Earnings			
Balance at beginning of year	$ 827,542	$ 688,545	$ 565,491
Dividends declared	(3,208)	(13,449)	(14,193)
Net income	62,058	152,446	137,247
Balance at end of year	$ 886,392	$ 827,542	$ 688,545
Treasury Stock			
Balance at beginning of year	$ (535,797)	$ (413,617)	$ (188,143)
Purchases of treasury stock	(361,437)	(122,180)	(225,474)
Balance at end of year	$ (897,234)	$ (535,797)	$ (413,617)
Accumulated Other Comprehensive Income (Expense)[a]			
Balance at beginning of year	$ (7,220)	$ 874	$ 8,393
Unrealized gains (losses) on securities, net of reclassification adjustment (see Note 15)	(2,340)	512	(5,497)
Foreign currency translation adjustments	583	(8,606)	(2,022)
Balance at end of year	$ (8,977)	$ (7,220)	$ 874
Comprehensive Income[a]			
Net income	$ 62,058	$ 152,446	$ 137,247
Unrealized gains (losses) on securities, net of reclassification adjustment (see Note 15)	(2,340)	512	(5,497)
Foreign currency translation adjustments	583	(8,606)	(2,022)
Comprehensive income	$ 60,301	$ 144,352	$ 129,728

[a] *All items of comprehensive income and other comprehensive income are displayed net of tax effects.*

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

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

International Game Technology (referred throughout these notes, together with its consolidated subsidiaries where appropriate, as "IGT," "the Company," "we," "our" and "us") was incorporated in December 1980 to acquire the gaming licensee and operating entity, IGT, and to facilitate our initial public offering. We operate principally in two lines of business: the development, manufacturing, marketing and distribution of gaming products (product sales) and development, marketing and the operation of wide-area progressive systems and gaming equipment leasing (gaming operations). Our revenues are generated in the US and internationally in Africa, Australia, Europe, Japan, South America and the United Kingdom.

Gaming Product Sales

IGT manufactures domestically a broad range of microprocessor-based gaming machines, consisting of traditional spinning reel slot machines, video gaming machines and government-sponsored and other video gaming devices. For our domestic and certain international markets, we offer 400 recognized trademarked game themes. We typically sell our machines directly or through distributors to casino operators, but may in certain circumstances finance the sale or lease of equipment to the operator.

Gaming machines for the casino markets in Europe, South Africa and South America are similar to the spinning reel and video games in the North American markets. Features differ in each market but the games are generally multiple coin games with random outcomes paid in coins returned to the customer. In some jurisdictions, the machines pay out in the form of tickets, vouchers or tokens, rather than coins. Gaming machines in Australia, Japan and the United Kingdom markets, however, are produced locally and differ substantially from domestic machines.

In addition to gaming machines, IGT develops and sells computerized casino management systems which provide casino operators with slot and table game accounting, player tracking and specialized bonusing capabilities. We also develop and sell specialized proprietary systems to allow the lottery authorities to monitor video lottery terminals. We derive revenue related to the operation of these systems and collect license and franchise fees for the use of the systems.

Gaming Operations

Approximately 4% of the domestic installed base of all gaming machines generate recurring revenue including wide-area progressive systems and stand-alone machines in which the manufacturer participates in the revenue from the machine on a percentage or fee basis. Wide-area progressive systems are electronically-linked, inter-casino systems that link gaming machines to a central computer, allowing the system to build a "progressive" jackpot with every wager made throughout the system until a player hits a winning combination. In the North American market, IGT estimates it holds more than a 70% share of the installed base of these machines.

We have developed and operated wide-area progressive systems for over 10 years under such brand names as Jeopardy!, Megabucks, Quartermania and Wheel of Fortune. Wide-area progressive systems are designed to increase gaming machine play for participating casinos by giving players the opportunity to win larger or more frequent jackpots than on machines not linked to progressive systems. Win (net earnings to the operator) per machine on machines linked to progressive systems are generally higher than on stand-alone machines.

Principles of Consolidation

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

Product Sales

IGT makes product sales for cash, on normal credit terms of 90 days or less, and over longer term installments. Generally, sales are recorded when the products are shipped and title passes to the customer.

Gaming Operations

The following table shows the revenues from gaming operations.

(Dollars in thousands)	Years Ended October 2, 1999	September 30, 1998	September 30, 1997
Proprietary systems	$ 320,364	$ 318,499	$ 253,953
Lease operations	32,700	28,600	28,867
Total	$ 353,064	$ 347,099	$ 282,820

Gaming operations revenues consist of revenues relating to the operation of the proprietary systems, a share of the net gaming winnings from the operation of machines at customer locations, and the lease and rental of gaming and video lottery machines. IGT operates several proprietary systems in accordance with joint venture agreements and accounts for this activity under the equity method. IGT's portion of joint venture related income, net of expenses, is also included in gaming operations revenue.

IGT's linked proprietary systems are operated domestically in Colorado, Louisiana, Michigan, Mississippi, Missouri, Nevada, New Jersey, South Dakota and Native American casinos, and internationally in Iceland. Stand alone versions of some of the MegaJackpots games are also operated domestically in Colorado, Connecticut, Illinois, Indiana, Louisiana, Nevada and on cruise ships, as well as internationally in Ontario and Quebec.

The operation of linked progressive systems varies among jurisdictions as a result of different gaming regulations. In all jurisdictions, the casinos pay a percentage of the handle to fund the progressive jackpot. Funding of the progressive jackpot differs by jurisdiction but is generally administered by IGT. Jackpots are currently paid in equal installments over a 20 to 31 year period or winners can elect to receive the discounted value of the jackpot in lieu of annual installments. Jackpots on some of our newer MegaJackpots games are paid out at the time they are won. In Atlantic City, the progressive jackpot fund is administered by a trust managed by representatives of the participating casinos. The trust records a liability to IGT for an annual casino licensing fee as well as an annual machine rental fee for each machine. In Colorado, funding of progressive jackpots is administered by a separate fund managed by IGT. Progressive system lease fees are paid to IGT from this fund. A linked progressive system is also operated by a trust in Iowa. IGT derives revenue based on trust profits.

Research and Development

Research and development costs are expensed as incurred. Research and development performed for specific customers is charged to cost of product sales when the related sale is made.

Cash and Cash Equivalents

Cash and cash equivalents include operating cash as well as cash required for funding current progressive systems jackpot payments and purchasing investments to meet obligations for making payments to jackpot winners. Cash in excess of daily requirements is generally invested in various marketable securities. If these securities have original maturities of three months or less, they are considered cash equivalents. Such investments are stated at cost, which approximates market.

Investment Securities

Our investment securities are classified as available-for-sale and stated at market value. Unrealized gains and losses, net of income tax effects, are excluded from income and reported as a component of accumulated other comprehensive income. Market value is determined by the most recently traded price of the security at the balance sheet date. Net realized gains or losses are determined on the specific identification cost method.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Depreciation and Amortization

Depreciation and amortization are provided on the straight-line method over the following useful lives:

Buildings	39 to 40 years
Gaming operations equipment	2 1/2 to 5 years
Manufacturing machinery and equipment	3 to 15 years
Leasehold improvements	Term of lease
Excess of cost over net assets acquired	40 years

Maintenance and repairs are expensed as incurred. The costs of improvements are capitalized. Gains or losses on the disposition of assets are included in income.

Long-Lived Assets

We review the carrying amount of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In fiscal 1999, our review of the recoverability of certain long-lived and intangible assets resulted in charges to income for the estimated impairment of these assets (see Note 7).

Investments to Fund Liabilities to Jackpot Winners

These investments represent discounted US Treasury Securities purchased to meet obligations for making payments to linked progressive systems jackpot winners. We have both the intent and ability to hold these investments to maturity and, therefore, classify them as held-to-maturity. Accordingly, these investments are stated at cost, adjusted for amortization of premiums and accretion of discounts over the term of the security using the interest method. Securities in this portfolio have maturity dates through 2028. Certain events during fiscal 1999 prompted IGT to sell a portion of these investments prior to maturity (see Note 4).

Other Assets

Other assets are primarily comprised of investments in joint ventures which are accounted for under the equity method and deferred offering costs related to Senior Notes issued in May 1999 (see Note 8). Other assets also includes deposits and certain investments.

Earnings Per Share

Earnings per share is computed based on the weighted average number of common and potential shares outstanding.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of certain of IGT's international subsidiaries is the local currency. For those subsidiaries, assets and liabilities are translated at exchange rates in effect at the balance sheet date, and income and expense accounts at average exchange rates during the year. Resulting translation adjustments are recorded directly to accumulated other comprehensive income within stockholders' equity. Gains and losses resulting from foreign currency transactions are recorded in income. For subsidiaries whose functional currency is the US dollar, gains and losses on non-US dollar denominated assets and liabilities are recorded in income.

Derivatives

IGT uses derivative financial instruments to reduce our exposure resulting from fluctuations in foreign exchange rates and interest rates. Derivative financial instruments are used to minimize our net exposure, by currency, related to the foreign currency denominated monetary assets and liabilities of our operations. These gains and losses are included in income. From time to time, we may hedge firm foreign currency commitments by entering into forward exchange contracts. Gains and losses on these hedges are included as a component of the hedged transaction when recorded. During fiscal 1999, IGT used interest rate swap agreements to effectively change a variable rate liability to a fixed rate. Amounts paid under interest rate swap agreements are accrued as interest rates change and are recognized over the life of the agreement as an adjustment to interest expense. The counterparties to each of these agreements are major commercial banks. We believe that losses related to credit risk are remote.

Recently Issued Accounting Standards

On June 30, 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and hedging activities and is effective for the first quarter of our fiscal year ending September 29, 2001. We believe that adoption of this statement will not have a material impact on our financial condition or results of operations.

Reclassifications
Certain amounts in the 1998 and 1997 consolidated financial statements have been reclassified to be consistent with the presentation used in fiscal year 1999.

Year End
IGT changed its fiscal year end to the Saturday closest to September 30, beginning with the fiscal year ended October 2, 1999. Similarly, each quarter will end on the Saturday closest to the last day of the quarter end month.

2. Acquisitions
In September 1999, we completed the purchase of Sodak Gaming, Inc. ("Sodak"), a South Dakota-based distributor of casino gaming products and software systems to Native American casino and gaming operators in the US. The purchase method of accounting for business combinations was applied to the Sodak acquisition. Accordingly, the aggregate purchase price of $198.9 million was allocated to the net assets of $91.3 million based on estimated fair values of the tangible assets and liabilities at the date of acquisition. The Miss Marquette Iowa riverboat and associated real property and assets was included in the purchase price and net assets as an asset held for sale and was subsequently sold for $41.7 million. We are substantially complete with our evaluation of the fair values of these assets and liabilities and do not anticipate material adjustments in fiscal 2000. The excess of the purchase price over the net assets acquired totaled $107.6 million. This acquisition was funded primarily by the issuance of Senior Notes in May 1999. Results of Sodak since the closing of the acquisition are included in the results of operations for the year.

The following unaudited pro forma financial information is presented as if the Sodak acquisition had been made at the beginning of fiscal 1998 presented:

	October 2, 1999	September 30, 1998
(Dollars in thousands)		
Total revenues	$ 963,437	$ 850,028
Income before extraordinary item	65,698	144,486
Net income	62,444	144,486
Earnings per share:		
Basic	$ 0.63	$ 1.28
Diluted	$ 0.62	$ 1.26

In June 1999, we made an investment in Access Systems Pty., LTD ("Access") of Sydney, Australia. During fiscal 1999, we owned a minority interest in Access. We also held options to purchase additional shares and notes convertible into capital stock of Access. We used the equity method of accounting for this investment. Subsequent to year end, IGT has elected to convert its equity interests to a debt instrument in fiscal 2000.

In March 1998, we purchased Barcrest Limited ("Barcrest"), a Manchester, England-based manufacturer and supplier of gaming related amusement devices and purchased certain assets of Olympic Amusements Pty. Limited ("Olympic"), a manufacturer and supplier of electronic gaming machines, gaming systems and other gaming equipment and services to the Australian gaming market. The purchase method of accounting for business combinations was applied to the Barcrest and Olympic acquisitions. Accordingly, the aggregate purchase price of $181.8 million was allocated to the net assets of $76.5 million based on estimated fair values of the tangible assets, intangible assets and liabilities at the dates of acquisition. The excess of the purchase price over the net assets acquired, totaled $105.3 million (see Note 7). These acquisitions were funded primarily with additional borrowings on a line of credit, as well as long-term borrowings by our Australian subsidiary.

3. Investment Securities

A summary of investment securities at October 2, 1999 and September 30, 1998 follows:

	Net Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
(Dollars in thousands)				
October 2, 1999				
US government obligations	$10,010	$ –	$ (60)	$ 9,950
Equity securities	10,083	–	(1,487)	8,596
Total investment securities	$20,093	$ –	$ (1,547)	$18,546
September 30, 1998				
Total equity securities	$17,301	$ 3,009	$ (956)	$19,354

At October 2, 1999, debt securities had maturity dates ranging from two months to 15 years.

The proceeds from sales of available-for-sale securities were $12.0 million, $12.5 million, and $78.3 million for fiscal 1999, 1998 and 1997. The gross realized gains were $5.9 million, $1.1 million, and $13.6 million for fiscal 1999, 1998 and 1997. The gross realized losses were $27,000, $187,000 and $574,000 for fiscal 1999, 1998 and 1997. In fiscal 1999, we also recognized a $236,000 loss on an equity security deemed to be permanently impaired.

4. Investments to Fund Liabilities to Jackpot Winners

A summary of investments held to fund liabilities to jackpot winners at October 2, 1999 and September 30, 1998 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
October 2, 1999				
Total US government obligations	$ 262,932	$10,202	$ (4,892)	$ 268,242
September 30, 1998				
Total US government obligations	$ 410,643	$59,383	$ (4,126)	$ 465,900

Federal legislation passed in October 1998 permits jackpot winners to receive the discounted value of progressive jackpots won in lieu of annual installments. For jackpots won prior to the effective date of the legislation, the winner was able to make this election after July 1, 1999. Upon a winner's election after July 1, 1999, investments held by IGT to fund the winner's liability were sold to settle the liability. The offer for these past winners to elect a single cash payment has now expired and we do not anticipate additional sales of these held to maturity investments.

The proceeds from sales of held-to-maturity securities were $154.1 million for fiscal 1999. The gross realized gains were $5.7 million. The gross realized losses were $2.0 million. All proceeds from the sale of these securities were paid to jackpot winners. Therefore, the net realized gain was offset by an equal loss on the settlement of winner liabilities.

5. Notes and Contracts Receivable

IGT grants customers extended payment terms under contracts of sale. These contracts are generally for terms of one to five years, with interest recognized at prevailing rates, and are secured by the related equipment sold.

IGT has provided loans, principally for financial assistance, to several customers. With the recent acquisition of Sodak, our portfolio of this type of loan has increased. The balance of such loans totaled $18.5 million at October 2, 1999 and $2.1 million at September 30, 1998. Allowances for doubtful loans at October 2, 1999 were $58,000 and zero at September 30, 1998. These loans are generally for terms of one to five years with interest at prevailing rates. The following table represents the estimated future collections of notes and contracts receivable, net of allowances, at October 2, 1999.

Fiscal Year	Estimated Receipts
(Dollars in thousands)	
2000	$ 74,987
2001	40,145
2002	10,687
2003	3,999
2004	5,650
Thereafter	389
	$ 135,857

At October 2, 1999 and September 30, 1998, the following allowances for doubtful notes and contracts were netted against current and long-term maturities:

	October 2, 1999	September 30, 1998
(Dollars in thousands)		
Current	$14,157	$10,602
Long-term	5,497	6,126
	$19,654	$16,728

6. Concentrations of Credit Risk

The financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and accounts, contracts, and notes receivable. At October 2, 1999, we had bank deposits in excess of insured limits of approximately $63.2 million.

Product sales and the resulting receivables are concentrated in specific legalized gaming regions. We also distribute a portion of our products through third party distributors resulting in significant distributor receivables.

Accounts, contracts, and notes receivable by region as a percentage of total receivables at October 2, 1999 are as follows:

Region	
Nevada	22%
Native American casinos	21%
Other US regions including joint ventures	15%
South America	8%
Atlantic City (distributor and other)	7%
Europe	7%
Australia	6%
Riverboats (greater Mississippi River area)	4%
Other regions (individually less than 3%)	10%
Total	100%

In September 1993, we sold our equity ownership interest in CMS-International ("CMS") to Summit Casinos-Nevada, Inc. ("Summit"), whose owners include senior management of CMS. During fiscal 1999, we remained as guarantor on certain indebtedness of CMS, which at October 2, 1999, had an aggregate outstanding balance of $14.4 million, including principal and accrued interest. CMS is now under new ownership. On November 5, 1999, we purchased the notes from the lender and restructured the terms with the new owners. The revised notes call for monthly payments of principal and interest and have a maturity date of December 31, 2008. The notes remain collateralized by the respective casino properties. At this time we do not believe a reserve against these notes is necessary.

7. Intangible Assets and Restructuring Charges

Intangible assets consist of the following:

	October 2, 1999	September 30, 1998
(Dollars in thousands)		
Intellectual property	$ 1,650	$ 37,129
Excess of cost over net assets acquired	153,209	98,778
	154,859	135,907
Less accumulated amortization	(2,823)	(4,355)
	$ 152,036	$ 131,552

During fiscal 1999, our intangible assets increased by $107.6 million with the acquisition of Sodak, offset by a decrease of $86.8 million from the write-off of intangible assets related to Olympic.

We recorded approximately $100 million in intangible assets with the purchase of Olympic. Soon after the acquisition, IGT-Australia experienced difficulties assimilating Olympic with its existing operations due to several factors including: an employee strike which forced us to accelerate the closure of the Melbourne plant; the resignation of two Managing Directors and the appointment of the current Managing Director in March 1999; and significant turnover throughout the company. As a result, an integration plan was not adequately designed or implemented. Product difficulties were also experienced, including: numerous machine platforms and multiple games on these platforms creating complexity in our Australian product offering; difficulty obtaining game approval due to regulatory delays; and the inability to meet our customers' demands for new products due to poor game performance in the market. While we lost significant market share and customer confidence, our competition prospered in this strong market. During the third quarter, the current Managing Director initiated business changes, however, the financial losses worsened. In the fourth quarter, the forecasted outlook continued to decline and we realized IGT-Australia would not recover from the difficulties experienced with the Olympic acquisition. The recoverability of the intangible assets was evaluated. Based on our review, we determined the impairment of the intangible assets to be their total unamortized value of $86.8 million and recorded this charge in the fourth quarter along with restructuring charges of $6.0 million, including a $4.0 million inventory obsolescence charge and $2.0 million in asset and facility redundancy costs.

We also recorded impairment charges of $5.3 million in fiscal 1999, relating to changes in our recoverability assessment of inventory and receivables in Brazil. The government in Brazil recently rescinded the law allowing gaming devices in bingo halls throughout this market.

8. Notes Payable and Capital Lease Obligations

Notes payable and capital lease obligations consist of the following:

	October 2, 1999	September 30, 1998
(Dollars in thousands)		
Senior notes, net of unamortized discount	$ 990,436	$ 85,700
Lines of credit	3,278	195,913
Australian facility agreement	–	71,196
Capital lease obligations	–	12
Total	993,714	352,821
Less current maturities	3,278	30,311
Long-term notes payable and capital lease obligations, net of current maturities	$ 990,436	$ 322,510

Senior Notes

In May 1999, IGT completed the private placement of $1.0 billion in aggregate principal amount of Senior Notes pursuant to rule 144A under the Securities Act of 1933. The Senior Notes were issued in two tranches: $400 million aggregate principal amount of 7.875% Senior Notes, due May 15, 2004, priced at 99.053% and $600 million aggregate principal amount of 8.375% Senior Notes, due May 15, 2009, priced at 98.974%. In August 1999, we exchanged all outstanding 7.875% Senior Notes due 2004 and all outstanding 8.375% Senior Notes due 2009 for identical registered notes. A portion of the proceeds was used to redeem previously outstanding 7.84% Senior Notes due 2004. This resulted in a prepayment penalty of $3.3 million after tax, and is reflected in the income statement as an extraordinary expense. Additionally, we repaid outstanding borrowings under both our US revolving bank credit facility and our Australian credit facility and settled a forward equity share repurchase of 4.9 million shares of our common stock. The remaining net proceeds from the offering were used to finance our acquisition of Sodak and to fund working capital and our common stock repurchase program.

Credit Facilities

Our domestic and foreign facilities totaled $276.3 million at October 2, 1999. Of this amount, $3.3 million was drawn, $3.2 million was reserved for letters of credit and the remaining $269.8 million was available. We are required to comply with certain covenants contained in these agreements which, among other things, limit financial commitments we may make without the written consent of the lenders and require the maintenance of certain financial ratios. At October 2, 1999, we were in compliance with all applicable covenants.

Capital Leases

At October 2, 1999, we had no equipment under capital lease. The cost of equipment under capital leases at September 30, 1998 was $155,000 and the related accumulated depreciation was $103,000.

The following table represents the future fiscal year principal payments of the notes at October 2, 1999:

Fiscal Year	Principal Payments
(Dollars in thousands)	
2000	$ 3,278
2001	–
2002	–
2003	–
2004	400,000
2005 and after	600,000
Total principal payments	1,003,278
Less unamortized discount	(9,564)
Net notes payable	$ 993,714

9. Commitments

We lease certain of our facilities and equipment under various agreements for periods through the year 2006. The following table shows the future minimum rental payments required under these operating and capital leases which have initial or remaining non-cancelable lease terms in excess of one year as of October 2, 1999.

Fiscal Year	Operating Leases
(Dollars in thousands)	
2000	$ 6,590
2001	4,618
2002	2,753
2003	803
2004	382
2005 and after	470
Total minimum payments	$15,616

Certain of the facility leases provide that we pay utilities, maintenance, property taxes, and certain other operating expenses applicable to the leased property, including liability and property damage insurance. The lease term for our previous manufacturing facility in Reno, Nevada extends through February 2003 and the related payments are included in the schedule above. We have sublet approximately half of this facility to third parties. The terms of the sublease agreements call for payments of $3.3 million for the period of October 1999 through February 2003. We previously accrued for the future gross lease payments of these abandoned buildings, net of anticipated sublease receipts, and do not anticipate additional impact on our results of operations.

The total rental expense was approximately $6.0 million for fiscal 1999, $5.1 million for fiscal 1998 and $3.6 million for fiscal 1997.

10. Jackpot Liabilities

IGT receives a percentage of the amounts wagered or machine rental and service fees from the linked progressive systems to fund the related jackpot payments. Winners may elect to receive a single payment of the discounted value of the jackpot won or annual installments. Equal annual installments are paid over 20 to 31 years without interest.

The following schedule sets forth the future fiscal year payments for the jackpot winners under these systems at October 2, 1999:

Fiscal Year	Payments
(Dollars in thousands)	
2000	$ 30,882
2001	27,533
2002	27,533
2003	27,490
2004	27,363
2005 and after	290,860
	$ 431,661

Jackpot liabilities include discounted payments due to winners for jackpots won and amounts accrued for jackpots not yet won that are contractual obligations of IGT. Jackpot liabilities consist of the following:

	October 2, 1999	September 30, 1998
(Dollars in thousands)		
Gross payments due to jackpot winners	$ 431,661	$ 691,224
Unamortized discount on payments to jackpot winners	(162,609)	(277,859)
Accrual for jackpots not yet won	88,904	116,511
Total jackpot liabilities	357,956	529,876
Less current liabilities	(41,130)	(50,659)
Long-term jackpot liabilities	$ 316,826	$ 479,217

We amortize the discounts on the jackpot liabilities to interest expense. During fiscal 1999, 1998 and 1997, we recorded interest expense on jackpot liabilities of $25.9 million, $25.6 million and $21.2 million. We were required to maintain cash and investments relating to systems liabilities totaling $54.6 million at October 2, 1999 and $65.3 million at September 30, 1998.

11. Financial Instruments

IGT uses derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest and foreign exchange rates. While these hedging instruments are subject to fluctuations in value, such fluctuations are generally offset by the value of the underlying exposures being hedged. The Company is not a party to leveraged derivatives and does not hold or issue financial instruments for speculative purposes.

Foreign Currency Management

We routinely use forward exchange contracts to hedge our net exposures, by currency, related to the monetary assets and liabilities of our operations denominated in non-functional currency. The primary business objective of this hedging program is to minimize the gains and losses resulting from exchange rate changes. At October 2, 1999 and September 30, 1998, we had net foreign currency transaction exposure of $41.7 million and $54.8 million, respectively. In fiscal 1999 and 1998, $38.8 million and $43.7 million was hedged with currency forward contracts. In addition, from time to time, the Company may enter into forward exchange contracts to establish with certainty the US dollar amount of future firm commitments denominated in a foreign currency.

Interest Rate Management

In fiscal 1999, the Company effectively converted variable rate debt in Australia to fixed rate debt using an interest rate swap agreement with three counterparties. These swaps, which were required under the Australia facility agreement, had quarterly interest settlement dates. During fiscal 1999, the Australia facility agreement was paid in full. As a result, these swaps were settled. No gains or losses were recorded on the settlement.

Other Off-Balance Sheet Instruments

In the normal course of business, IGT is a party to financial instruments with off-balance-sheet risk such as performance bonds and other guarantees, which are not reflected in the accompanying balance sheets. We had performance bonds outstanding that related to our operation of two lottery systems and a gaming machine route totaling $2.3 million at October 2, 1999 and $2.2 million at September 30, 1998. IGT is liable to reimburse the bond issuer in the event the bond is exercised as a result of our non-performance. We had outstanding letters of credit, issued under our line of credit (see Note 8), totaling $3.2 million at October 2, 1999 and $2.9 million at September 30, 1998, which were issued to insure payment by IGT to certain vendors and governmental agencies. Management does not expect any material losses to result from these off-balance-sheet instruments.

At October 2, 1999, we had no foreign currency contracts to hedge firm commitments. At September 30, 1998, IGT had foreign currency contracts to hedge firm commitments in the amount of $1.2 million in Australia. The gain or loss on these instruments was deferred and was recognized in income when the hedged transactions occur. At September 30, 1998, the unrealized gains/losses on these instruments, which mature within six months, were immaterial to the consolidated financial statements.

The following table presents the carrying amount and estimated fair value of IGT's financial instruments:

	October 2, 1999		September 30, 1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)				
Assets				
Cash and cash equivalents	$ 426,343	$ 426,343	$ 175,413	$ 175,413
Investment securities	18,546	18,546	19,354	19,354
Notes and contracts receivable	135,857	125,581	100,772	103,301
Investments to fund liabilities to jackpot winners	262,932	268,242	410,643	465,900
Liabilities				
Jackpot liabilities	357,956	363,267	529,876	584,924
Notes payable and capital lease obligations	993,714	955,778	352,821	358,778
Foreign currency contracts				
On balance sheet	38,813	39,860	43,737	43,779
Off balance sheet	–	–	1,200	1,199

The carrying value of cash and cash equivalents approximates fair value because of the short-term maturity of those instruments. The estimated fair value of investment securities and investments to fund liabilities to jackpot winners are based on quoted market prices. The estimated fair value of jackpot liabilities is based on quoted market prices of investments which upon maturity will be used to fund these liabilities. The fair value of the Company's notes and contracts receivable is estimated by discounting the future cash flows using interest rates determined by management to reflect the credit risk and remaining maturities of the related notes and contracts. The estimated fair value of the registered Senior Notes at October 2, 1999, included in notes payable and capital lease obligations, is based on quoted market prices for an instrument with similar terms. At September 30, 1998, the estimated fair value of the Senior Notes, included in notes payable and capital lease obligations, was based on the yield required at the respective year end of a private placement of similar terms and credit valuation. The carrying value of the lines of credit, also included in notes payable and capital lease obligations, approximates fair value. The estimated fair value of foreign currency contracts is based on quoted market prices for an instrument with terms similar to the contract at year end.

12. Earnings Per Share

Effective October 1, 1997, the Company adopted SFAS No. 128, "Earnings Per Share." Weighted average shares for the year ended September 30, 1997 has been restated in accordance with SFAS No. 128. The following table shows the reconciliation of basic earnings per share ("EPS") to diluted EPS, for income before extraordinary item at years ended:

	October 2, 1999	September 30, 1998	September 30, 1997
(Dollars in thousands, except per share amounts)			
Income before extraordinary item	$ 65,312	$ 152,446	$ 137,247
Weighted average common shares outstanding	99,461	113,064	120,715
Dilutive effect of stock options outstanding	777	1,639	1,114
Weighted average common and potential shares outstanding	100,238	114,703	121,829
Basic earnings per share	$ 0.65	$ 1.35	$ 1.14
Diluted earnings per share	$ 0.65	$ 1.33	$ 1.13

Options to purchase 1.3 million, 159,000 and 127,000 shares of common stock at October 2, 1999, September 30, 1998 and 1997, were not included in the computation of year-to-date diluted EPS because the options' exercise price was greater than the average market price of the common shares. We have purchased a total of 761,000 shares, or approximately 1%, of our outstanding common stock during the period from October 3, 1999 to November 10, 1999. There were no other transactions in the same period which would have materially changed the number of common shares or potential common shares outstanding.

13. Contingencies

IGT has been named in and has brought lawsuits in the normal course of business. We do not expect the outcome of these suits, including the lawsuits described below, to have a material adverse effect on our financial position or results of future operations.

Ahern

Along with a number of other public gaming corporations, IGT is a defendant in three class action lawsuits: one filed in the United States District Court of Nevada, Southern Division, entitled *Larry Schreier v. Caesar's World, Inc., et al.,* and two filed in the United States District Court of Florida, Orlando Division, entitled *Poulos v. Caesar's World, Inc., et al.,* and *Ahern v. Caesar's World, Inc., et al.,* which have been consolidated into a single action. The Court granted the defendants' motion to transfer venue of the consolidated action to Las Vegas. The actions allege that the defendants have engaged in fraudulent and misleading conduct by inducing people to play video poker machines and electronic slot machines, based on false beliefs concerning how the machines operate and the extent to which there is an opportunity to win on a given play. The amended complaint alleges that the defendants' acts constitute violations of the Racketeer Influenced and Corrupt Organizations Act, and also give rise to claims for common law fraud and unjust enrichment, and seeks compensatory, special, consequential, incidental and punitive damages of several billion dollars. In December 1997, the Court denied the motions that would have dismissed the Consolidated Amended Complaint or that would have stayed the action pending Nevada gaming regulatory action. The defendants filed their consolidated answer to the Consolidated Amended Complaint on February 11, 1998. At this time, motions concerning class certification are pending before the Court.

WMS

In May 1994, WMS Industries, Inc. instituted a declaratory judgment action (the "Model 400 Action") against IGT, in the United States District Court for the Northern District of Illinois. The action sought a declaration that a certain patent issued in 1984 and owned by IGT (the "Telnaes Patent") was invalid and that certain reel-type slot machines then made by WMS did not infringe the Telnaes Patent. We counterclaimed alleging that the Telnaes Patent was infringed by WMS' reel-type slot machines.

In September 1996, the Trial Court reached a decision in favor of IGT, finding the Telnaes Patent valid, finding WMS' model 400 slot machine to infringe the Telnaes Patent, in which we sought a preliminary and permanent injunction and treble damages. In July 1999, the US Court of Appeals for the Federal Circuit affirmed the Trial Court's decision that the Telnaes Patent is valid and that the WMS model 400 slot machine infringed the patent. The Court affirmed the damages awarded of approximately $10 million plus accrued interest. Still unresolved is whether the damages award will be trebled, and whether IGT will be entitled to collect its attorney's fees and costs from WMS. Trebling of the damages is dependent on whether the infringement was willful. These issues have been remanded to the District Court for further findings.

In November 1996, we commenced an action against WMS in the Trial Court seeking a judgment declaring that WMS' Model 401 slot machine also infringed the Telnaes patent. In December 1996, the Court granted our motion for a preliminary injunction and enjoined WMS from the manufacture, use and sale of the Model 401 slot machine. WMS filed a notice of appeal on May 7, 1998. In July 1999, in a second suit on WMS' Model 401 machine that was heard by the Federal Circuit Court of Appeals at the same time, the Court reversed the District Court's granting of a preliminary injunction to IGT prohibiting the make, use or sale of WMS' Model 401 machine. The Appellate Court ruled that a different interpretation of the patent claims than that made by the District Court was appropriate. This case has also been remanded to the District Court for further findings in view of the Appellate Court's claim interpretation.

Bally

In July 1999, Bally Gaming, Inc. filed a complaint against IGT in the United States District Court for the District of New Jersey alleging that certain wide-area progressive system agreements we entered into with customers in Atlantic City, New Jersey violate federal and New Jersey antitrust laws. The complaint sought declaratory and injunctive relief and damages. IGT and Bally executed a memorandum of understanding resolving all outstanding claims and the complaint was dismissed with prejudice in September 1999.

14. Income Taxes

SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating loss and tax credit carryforwards. The Company determines the net current deferred tax asset or liability and the net noncurrent asset or liability separately for federal, state, and foreign jurisdictions.

The effective income tax rates differ from the statutory United States federal income tax rates as follows for the years ended:

	October 2, 1999		September 30, 1998		1997	
(Dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Taxes at federal statutory rate	$35,488	35.0%	$82,086	35.0%	$74,419	35.0%
Foreign subsidiaries tax	3,657	3.6	591	0.3	(158)	0.0
State income tax, net	2,670	2.6	2,049	0.9	2,084	1.0
Research and development credits	(2,192)	(2.2)	(247)	(0.1)	–	0.0
Valuation allowance, IGT-Australia	6,067	6.0	–	0.0	–	0.0
Expiration of tax contingencies	(5,344)	(5.3)	(1,163)	(0.5)	123	0.1
Adjustment to estimated income tax accruals	(3,306)	(3.3)	272	0.1	294	0.1
Other, net	(959)	(0.8)	(1,502)	(0.7)	(1,384)	(0.7)
Provision for income taxes	$36,081	35.6%	$82,086	35.0%	$75,378	35.5%

Components of the provision for income taxes were as follows for the years ended:

	October 2, 1999	September 30, 1998	September 30, 1997
(Dollars in thousands)			
Current			
Federal	$ (11,602)	$ 106,431	$ 102,171
State	358	4,657	3,632
Foreign	9,118	2,922	1,652
Total current	(2,126)	114,010	107,455
Deferred			
Federal	30,761	(30,862)	(30,283)
State	1,566	(2,149)	(308)
Foreign	5,880	1,087	(1,486)
Total deferred	38,207	(31,924)	(32,077)
Provision for income taxes	$ 36,081	$ 82,086	$ 75,378

Significant components of the Company's deferred tax assets and liabilities are as follows:

	October 2, 1999	September 30, 1998
(Dollars in thousands)		
Current deferred tax assets		
Reserves not currently deductible	$ 18,819	$ 13,208
Reserve differential for gaming activities	–	2,315
Foreign subsidiaries	883	687
Unrealized loss on investment securities	542	–
Other	3,733	1,062
Current deferred tax liabilities		
Unrealized gain on investment securities	–	(719)
Other	–	(36)
Net current deferred tax asset	23,977	16,517
Non-current deferred tax assets		
Reserves not currently deductible	824	–
Reserve differential for gaming activities	64,669	122,407
Foreign subsidiaries	6,161	5,328
State income taxes	3,349	4,368
Amortization of goodwill	28,380	–
Other	3,111	7,655
Non-current deferred tax liabilities		
Difference between book and tax basis of property	(7,027)	(5,793)
Amortization of goodwill	(1,599)	(1,732)
Other	(2,327)	(525)
Total net non-current deferred tax asset	95,541	131,708
Valuation allowance	(6,067)	–
Net non-current deferred tax asset	89,474	131,708
Net deferred tax asset	$ 113,451	$ 148,225

Due to the uncertainty of the realization of certain deferred tax assets related to IGT-Australia, IGT has established a valuation allowance in the amount of $6.1 million.

15. Comprehensive Income

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, which requires the reporting of comprehensive income and its components in the financial statements. We adopted this Statement beginning October 1, 1998. This Statement also requires that we classify items of other comprehensive income by their nature in an annual financial statement. The components of IGT's other comprehensive income are as follows:

(Dollars in thousands)	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Year ended October 2, 1999			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	$ 266	$ (93)	$ 173
Less: reclassification adjustment for gains (losses) realized in net income	3,866	(1,353)	2,513
Net unrealized gains (losses)	(3,600)	1,260	(2,340)
Foreign currency translation adjustments	897	(314)	583
Other comprehensive income (expense)	$ (2,703)	$ 946	$ (1,757)
Year ended September 30, 1998			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	$ 1,822	$ (638)	$ 1,184
Less: reclassification adjustment for gains (losses) realized in net income	1,034	(362)	672
Net unrealized gains (losses)	788	(276)	512
Foreign currency translation adjustments	(13,240)	4,634	(8,606)
Other comprehensive income (expense)	$(12,452)	$ 4,358	$ (8,094)
Year ended September 30, 1997			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	$ 225	$ (79)	$ 146
Less: reclassification adjustment for gains (losses) realized in net income	8,681	(3,038)	5,643
Net unrealized gains (losses)	(8,456)	2,959	(5,497)
Foreign currency translation adjustments	(3,111)	1,089	(2,022)
Other comprehensive income (expense)	$(11,567)	$ 4,048	$ (7,519)

Accumulated Other Comprehensive Income Balances

(Dollars in thousands)	Unrealized Gains (Losses) on Securities	Foreign Currency Translation	Accumulated Other Comprehensive Income
Year ended October 2, 1999			
Beginning balance	$ 1,334	$ (8,554)	$ (7,220)
Current-period change	(2,340)	583	(1,757)
Ending balance	$ (1,006)	$ (7,971)	$ (8,977)
Year ended September 30, 1998			
Beginning balance	$ 822	$ 52	$ 874
Current-period change	512	(8,606)	(8,094)
Ending balance	$ 1,334	$ (8,554)	$ (7,220)
Year ended September 30, 1997			
Beginning balance	$ 6,319	$ 2,074	$ 8,393
Current-period change	(5,497)	(2,022)	(7,519)
Ending balance	$ 822	$ 52	$ 874

16. Employee Benefit Plans

Employee Incentive Plans

IGT provides the following three employee incentive plans: profit sharing and 401(k) plan, cash sharing and management bonus. Total annual contributions from operating profits for all three plans for the fiscal years ended 1999, 1998 and 1997 were $27.1 million, $26.5 million and $23.6 million.

The profit sharing and 401(k) plan was adopted for IGT employees working in the US. IGT matches 75% of an employee's contributions up to $1,000. This allows for maximum annual company matching contributions of $750 to each employee's account. Participants are 100% vested in their contributions and IGT's matching contributions. The remaining portion of IGT's contributions vest over a seven year period of employment.

The cash sharing plan is distributed semi-annually in May and November to all non IGT-Australia, IGT-Japan and Barcrest-Japan employees. The management bonuses are paid out annually to key employees throughout the Company.

Effective September 1, 1999, IGT implemented a non-qualified deferred compensation plan to provide an unfunded incentive compensation arrangement for eligible management and highly compensated employees. Participants may elect to defer up to 50% of their annual base salary, 50% of cash sharing, 50% of discretionary management bonus and 50% of commissions with a minimum deferral of $2,000. Distributions can be paid out as short-term payments or at retirement. Retirement benefits can be paid out as a lump sum or in annual installments over a term of up to 15 years.

Stock-Based Compensation Plans

IGT has three stock-based compensation plans, which are described below.

Employee Stock Purchase Plan

In 1987, IGT adopted a Qualified Employee Stock Purchase Plan. Under this Plan, each eligible employee may be granted an option to purchase a specific number of shares of IGT's common stock. The term of each option is 12 months, and the exercise date is the last day of the option period. Employees who have completed 90 days of service with IGT are eligible. Highly compensated employees receiving more than $80,000 in annual compensation were excluded from participating in the Plan in prior years. In March 1999, the shareholders approved an amendment to the Plan to allow highly compensated employees to participate in the Plan. Employees who are 5% or more shareholders and employees of certain subsidiaries are excluded.

An aggregate of 2.4 million shares may be made available under this plan. Employees may participate in this plan only through payroll deductions up to a maximum of 10% of their base pay. The option price is equal to the lesser of 85% of the fair market value of the common stock on the date of grant or on the date of exercise. At October 2, 1999, 614,000 shares were available under this plan.

Restricted Stock Awards

In March 1996, 600,000 shares were issued to six employees at a price of $.01 per share. These restricted stock awards vest in increments over a five year period. Dividends on the shares issued are paid to the employees. IGT has the option to repurchase the unvested shares issued to the employees at $.01 per share if the employees terminate employment with IGT before the shares have vested.

Stock Option Plans

In 1981, IGT adopted a Stock Option Plan where non-qualified and incentive stock options may be granted to domestic and foreign employees. Under this Plan, there were 27.1 million shares available for grant. The Plan expired in December 1996. In 1993, IGT adopted an additional Stock Option Plan which permits non-qualified and incentive stock option awards for up to 5.0 million shares and additional non-qualified stock option awards to non-employee directors for up to 250,000 shares. In March of 1999, shareholders approved an increase in the number of awards permitted under the 1993 plan to 8.5 million shares.

Options have been granted at fair market value on the date of grant and, except for non-employee director options, typically vest ratably over five years although a shorter period may be provided, and expire 10 years subsequent to the grant.

In February 1997, IGT amended the 1993 Stock Option Plan to permit the grant of restricted stock awards of a fixed number of shares to participants determined by IGT's Board of Directors. Restricted stock awarded to a participant may not be voluntarily or involuntarily sold, assigned, transferred, pledged or encumbered during the restricted period. Shares awarded to participants in fiscal 1999, 1998 and 1997 totaled 50,000, 10,000 and 200,000 shares, at a price of $.01 per share. The shares vest in increments over a five year period.

At October 2, 1999, options to purchase 3.5 million shares were available for grant under the plans.

	Number of Shares	Weighted Average Exercise Price
Outstanding at September 30, 1996	4,251,035	$ 12.64
Granted	1,876,361	$ 18.07
Forfeited or expired	(271,557)	$ 13.98
Exercised	(299,102)	$ 8.56
Outstanding at September 30, 1997	5,556,737	$ 14.56
Granted	809,617	$ 23.30
Forfeited or expired	(170,984)	$ 17.63
Exercised	(617,742)	$ 10.27
Outstanding at September 30, 1998	5,577,628	$ 16.19
Granted	500,499	$ 17.83
Forfeited or expired	(280,822)	$ 17.57
Exercised	(179,636)	$ 20.09
Outstanding at October 2, 1999	5,617,669	$ 16.43
Options exercisable at October 2, 1999	3,217,047	$ 15.14
Options exercisable at September 30,		
1998	2,540,732	$ 14.25
1997	2,366,978	$ 12.76

The following table summarizes information for stock options outstanding and exercisable at October 2, 1999 in order to assess the number and timing of shares that may be issued and the cash that may be received as a result of options exercised:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.79–$12.75	766,532	5.4	$12.05	537,653	$11.98
$12.88–$13.25	1,508,985	6.4	13.24	1,294,385	13.25
$13.63–$17.63	1,575,855	7.3	16.44	821,885	16.08
$17.69–$28.50	1,766,297	8.1	21.05	563,124	21.17
$1.79–$28.50	5,617,669	7.0	$16.43	3,217,047	$15.14

Valuation of Stock-Based Compensation Plans

IGT adopted SFAS No. 123, "Accounting for Stock-Based Compensation" on October 1, 1996. As permitted by SFAS No. 123, the Company continues to apply Accounting Principles Board Opinion No. 25 to its stock-based compensation. Accordingly, no compensation expense has been recognized for the stock option and employee stock purchase plans. The compensation expense that has been charged against income for the restricted stock award plan was $1.0 million, $2.0 million and $2.6 million for fiscal 1999, 1998 and 1997. SFAS No. 123 requires compensation expense to be measured based on the fair value of the equity instrument awarded.

If compensation expense for IGT's three stock-based compensation plans had been determined in accordance with SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts shown below for the years ended:

	October 2, 1999	September 30, 1998	September 30, 1997
(Dollars in thousands, except per share amounts)			
Net income			
As reported	$62,058	$152,446	$137,247
Pro forma	57,793	146,948	132,506
Basic earnings per share			
As reported	$ 0.62	$ 1.35	$ 1.14
Pro forma	0.58	1.30	1.10
Diluted earnings per share			
As reported	$ 0.62	$ 1.33	$ 1.13
Pro forma	0.58	1.28	1.10
Weighted average fair value of options granted during the year	$ 7.76	$ 8.27	$ 6.27
Weighted average fair value of restricted stock awards granted during the year	$ 17.82	$ 23.75	$ 18.24

The fair value for stock-based compensation was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998 and 1997: interest rates (zero-coupon US government issues with an average remaining life of 1.67 years) of 5.5%, 5.6% and 5.6%; dividend yields of .14%, .47% and .71%; volatility factors of the expected market price of IGT's common stock of .45, .35 and .44; weighted-average expected life of stock options of 1.67 years and an expected life of 1.0 years for employee stock purchases.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because IGT's employee stock based compensation has characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock based compensation.

17. Related Party Transactions

Related party transactions included in the consolidated financial statements are as follows:

	October 2, 1999	September 30, 1998	September 30, 1997
(Dollars in thousands)			
Years Ended			
Total revenues	$97,017	$84,994	$35,601
As of			
Accounts receivable	$29,667	$ 8,205	$25,433
Current maturities of long-term notes and contracts receivable	–	–	1,831
Long-term notes and contracts receivable	–	4	123

Joint Ventures

We operate certain MegaJackpot systems under joint marketing alliances (the "Ventures") with various gaming or gaming related companies. Activities of these Ventures include placement of progressive system and other participation games and pursuit of video lottery opportunities. IGT owns a 50% share in each of the Ventures and recognized net revenues of $78.3 million during fiscal 1999. During the year, $62.3 million in asset and expense transfers and $22.3 million in capital contributions were made to the Ventures. At October 2, 1999, the Company had accounts receivable balances from these Ventures of $28.2 million. The largest aggregate amount of indebtedness outstanding at any time during the year was $28.2 million.

We apply the equity method of accounting to the joint ventures. Summarized financial information from the Spin for Cash Joint Venture and Master License Agreement with Anchor Gaming (the “Anchor joint venture”), our largest joint venture partner, is as follows for the years ended:

(Dollars in thousands)	October 2, 1999	September 30, 1998	September 30, 1997
Revenues	$ 293,460	$ 246,851	$ 60,672
Expenses	145,572	117,294	31,202
Operating income	147,888	129,557	29,470
Net income	149,958	130,979	29,148

As of *(Dollars in thousands)*	October 2, 1999	September 30, 1998
Total assets	$ 199,943	$ 171,742
Total liabilities	123,133	107,815
Total equity	76,810	63,927

Other Related Parties

During fiscal 1997, a member of our Board of Directors was an officer of, and had an equity interest in, a Nevada gaming business from which the Company recognized revenues of $956,000. He is also a director and officer of the parent company of additional gaming businesses, from which we recognized revenues of $18.7 million in fiscal 1999, $19.8 million in fiscal 1998 and $21.5 million in fiscal 1997. IGT had contracts and accounts receivable balances from these businesses of $1.5 million at October 2, 1999 and $1.3 million at September 30, 1998. The largest aggregate amount of contracts and accounts receivable outstanding at anytime during the year was $1.8 million.

18. Supplemental Statement of Cash Flows and Other Information

Supplemental Statement of Cash Flows

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

No notes or capital lease obligations were issued to obtain property, plant and equipment in fiscal 1999 and 1998. We incurred $12,000 in capital lease obligations to obtain property, plant and equipment in fiscal 1997.

We manufacture gaming machines which are used on our proprietary systems and are leased to customers under operating leases. As the net result of transfers between inventory and fixed assets, property, plant and equipment increased $32.9 million in fiscal 1999, $17.3 million in fiscal 1998 and $11.0 million in fiscal 1997.

The Company had dividends declared, but not yet paid, totaling $3.3 million and $3.4 million at September 30, 1998 and 1997.

The tax benefit of stock options and the employee stock purchase plan totaled $570,000 in fiscal 1999, $3.2 million in fiscal 1998 and $278,000 in fiscal 1997.

Payments of interest were $42.6 million in fiscal 1999, $41.2 million in fiscal 1998 and $30.5 million in fiscal 1997. Payments for income taxes were $28.0 million in fiscal 1999, $101.2 million in fiscal 1998 and $97.0 million in fiscal 1997.

In conjunction with acquisitions of businesses during the current year (see Note 2), the fair value of assets acquired totaled $129.7 million and the fair value of liabilities assumed totaled $38.4 million. In conjunction with acquisitions of businesses during fiscal 1998, the fair value of assets acquired totaled $100.1 million and the fair value of liabilities assumed totaled $23.6 million.

Stock Repurchase Plan

A stock repurchase plan was originally authorized by our Board of Directors in October 1990. As of November 10, 1999, IGT could purchase an additional 25.7 million shares under the authorization as modified by the Board of Directors. During fiscal 1999, we repurchased 21.8 million shares for an aggregate purchase price of $361.4 million. During fiscal 1998, we repurchased 5.5 million shares for an aggregate purchase price of $122.2 million. During the period of October 3, 1999 through November 10, 1999, we purchased 761,000 shares for an aggregate purchase price of $14.4 million.

19. Business Segments

IGT operates principally in two lines of business: (1) the development, manufacturing, marketing and distribution of gaming products, what we refer to as "Gaming Product Sales," and (2) the development, marketing and operation of wide-area progressive systems, what we refer to as "Gaming Operations."

	Years Ended		
(Dollars in thousands)	October 2, 1999	September 30, 1998	September 30, 1997
Revenues			
Manufacture of gaming products	$ 576,598	$ 477,024	$ 461,150
Gaming operations	353,064	347,099	282,820
Total	$ 929,662	$ 824,123	$ 743,970
Operating Profit			
Manufacture of gaming products	$ (46,913)	$ 80,999	$ 105,629
Gaming operations	185,804	172,696	118,638
Total	138,891	253,695	224,267
Other expense, including interest expense	(37,498)	(19,163)	(11,642)
Income Before Income Taxes and Extraordinary Item	$ 101,393	$ 234,532	$ 212,625
Depreciation and Amortization			
Manufacture of gaming products	$ 12,386	$ 9,928	$ 4,900
Gaming operations	22,953	18,017	19,683
Corporate	16,991	13,523	10,441
Total	$ 52,330	$ 41,468	$ 35,024
Identifiable Assets			
Manufacture of gaming products	$ 700,684	$ 638,618	$ 460,104
Gaming operations	594,964	754,849	600,918
Corporate	469,412	150,161	154,030
Total	$1,765,060	$1,543,628	$1,215,052

IGT's operations are based in the United States and internationally. The table below presents information as to our operations by these two regions for the years ended:

(Dollars in thousands)	October 2, 1999	September 30, 1998	1997
Revenues			
Domestic			
Unaffiliated customers	$ 666,685	$ 634,695	$ 601,934
Inter-area transfers	39,395	36,809	30,455
International			
Unaffiliated customers	262,977	189,428	142,036
Inter-area transfers	10,935	7,023	–
Eliminations	(50,330)	(43,832)	(30,455)
Total	$ 929,662	$ 824,123	$ 743,970
Operating Profit			
Domestic	$ 223,428	$ 217,180	$ 205,099
International	(84,537)	36,515	19,168
Total	138,891	253,695	224,267
Other expense, including interest expense	(37,498)	(19,163)	(11,642)
Income Before Income Taxes and Extraordinary Item	$ 101,393	$ 234,532	$ 212,625
Identifiable Assets			
Domestic	$1,528,934	$1,235,868	$1,092,317
International	236,126	307,760	122,735
Total	$1,765,060	$1,543,628	$1,215,052

On a consolidated basis we do not recognize intersegment revenues or expenses upon the transfer of gaming products between subsidiaries. Operating profit is revenue and interest income related to investments to fund jackpot liabilities less cost of sales and operating expenses, including related operating depreciation and amortization, provisions for bad debts, and an allocation of a portion of selling, general and administrative and research and development expenses. Other expense includes interest expense, interest income and gain (loss) on sale of assets.

We did not have sales to a single customer which exceeded 10% of revenues during fiscal 1999, 1998 or 1997.

20. Selected Quarterly Financial Data (Unaudited)

	First Qtr	Second Qtr	Third Qtr	Fourth Qtr
(Dollars in thousands, except per share amounts and stock prices)				
1999				
Total revenues	$ 221,706	$ 220,871	$ 258,859	$ 228,226
Gross profit	96,319	101,223	118,761	104,914
Income from operations (loss)	48,394	50,429	63,334	(45,839)
Net income (loss)	34,444	33,831	34,267	(40,484)
Diluted earnings (loss) per share	$ 0.32	$ 0.32	$ 0.36	$ (0.45)
Stock price				
High	$ 24 1/2	$ 23 7/16	$ 19 1/2	$ 19 1/4
Low	$ 16 1/2	$ 14 3/8	$ 14 11/16	$ 16 3/16
1998				
Total revenues	$ 165,011	$ 182,090	$ 222,982	$ 254,040
Gross profit	75,800	89,398	106,954	114,103
Income from operations	42,786	53,223	60,210	62,658
Net income	29,665	35,492	45,595	41,694
Diluted earnings per share	$ .26	$ .31	$ .40	$ .37
Stock price				
High	$ 26 13/16	$ 26 3/16	$ 28 9/16	$ 28 7/8
Low	$ 21 7/8	$ 23 3/16	$ 23 5/8	$ 18 1/2
1997				
Total revenues	$ 189,381	$ 164,371	$ 163,849	$ 226,369
Gross profit	86,892	78,084	75,918	101,347
Income from operations	49,774	40,023	41,899	59,741
Net income	33,668	27,714	34,472	41,393
Diluted earnings per share	$ .27	$ .22	$ .29	$ .36
Stock price				
High	$ 23 1/2	$ 19 3/4	$ 19 1/8	$ 23 1/4
Low	$ 17 5/8	$ 16 1/4	$ 15 3/8	$ 16 1/2

To the Stockholders and Board of Directors of International Game Technology:

We have audited the accompanying consolidated balance sheets of International Game Technology and Subsidiaries (the "Company") as of October 2, 1999 and September 30, 1998 and the related consolidated statements of income, cash flows and changes in stockholders' equity, for each of the three years in the period ended October 2, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 2, 1999 and September 30, 1998, and the results of its operations and its cash flows for each of the three years in the period ended October 2, 1999 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Reno, Nevada
November 10, 1999

Corporate Headquarters & Manufacturing Facility

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For information on sales offices worldwide, please contact our Southern Nevada sales office.

Board of Directors of International Game Technology

Charles N. Mathewson
Chairman

Albert J. Crosson
Vice Chairman

Wilbur K. Keating
Director

Warren L. Nelson
Director

Frederick B. Rentschler
Director

John J. Russell
Director

Rockwell A. Schnabel
Director

Claudine B. Williams
Director

Officers and Key Employees of IGT

Charles N. Mathewson
Chairman of the Board,
Chief Executive Officer

Albert J. Crosson
Vice Chairman

G. Thomas Baker
President,
Chief Operating Officer

Robert A. Bittman
Executive Vice President,
Product Development

Robert M. McMonigle
Executive Vice President,
Corporate Relations and
North America Sales

Raymond D. Pike
Executive Vice President
Corporate Development

Anthony Ciorciari
Senior Vice President,
Operations

Paulus Karskens
Senior Vice President
IGT-Europe B.V.
European and
South African Operations

Sarah Beth Brown
Vice President,
General Counsel and
Corporate Secretary

Maureen T. Mullarkey
Chief Financial Officer
Vice President, Finance
and Treasurer

Randy Kirner
Vice President,
Human Resources

Richard Pennington
Vice President
Product Management

Shareholder Information

Form 10-K

A copy of the 1999 Annual Report on Form 10-K as filed with the Securities and Exchange Commission is available to shareholders upon written request, without charge. All requests should be directed to:

International Game Technology
Attn: Investor Relations
9295 Prototype Drive
P.O. Box 10580
Reno, Nevada 89510-0580
Tel: (775) 448-0880
Fax: (775) 448-1137

Stock Exchange Listing

The Company's common stock is actively traded on the New York Stock Exchange (NYSE) under the symbol "IGT."

Transfer Agent and Registrar

Stockholders of record who have questions regarding address changes, stock transfer, dividends or lost certificates should direct their inquiries to:

The Bank of New York
Investor Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286
(800) 524-4458

Independent Auditors

Deloitte & Touche LLP
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Reno, Nevada 89501

Information Contact

Securities analysts, portfolio managers and representatives of financial institutions seeking information about the company should contact IGT Investor Relations, at the Company's address or by calling (775) 448-0110.

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