

FORM 10-K/A
Securities and Exchange Commission

Washington, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)

For the Fiscal Year Ended September 30, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)

For the transition period from _____ to _____

Commission File Number 001-10684

International Game Technology

(Exact name of registrant as specified in its charter)

Nevada
(State of Incorporation)

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

9295 Prototype Drive, Reno, Nevada 89511

(Address of principal executive offices)

Registrant's telephone number, including area code: (775) 448-7777

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|-----------------------------------|---|
| Common Stock, Par Value \$.000625 | New York Stock Exchange |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of November 24, 2000:

\$2,876,779,414

The number of shares outstanding of each of the registrant's classes of common stock, as of November 24, 2000:

72,721,196 shares of Common Stock, \$.000625 Par Value

Part III incorporates information by reference from the Registrant's definitive Proxy Statement to be filed with the Commission within 120 days after the close of the Registrant's fiscal year.

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Part I

Item 1. Business

General

International Game Technology was incorporated in December 1980 to acquire the gaming licensee and operating entity, IGT, and to facilitate its initial public offering. In addition to its 100% ownership of IGT, International Game Technology has the following directly or indirectly wholly-owned subsidiaries: I.G.T. - Argentina S.A. (IGT-Argentina); I.G.T. Australia Pty. Limited (IGT-Australia); International Game Technology (NZ) Ltd. (IGT-NZ); IGT do Brazil Ltda. (IGT-Brazil); IGT-Europe B.V. (IGT-Europe); IGT-Iceland Ltd. (IGT-Iceland); IGT-Japan K.K. (IGT-Japan); IGT-UK Limited (Barcrest); International Game Technology - Africa Pty. Limited (IGT-Africa); International Game Technology S.R. Ltda. (IGT-Peru); and Sodak Gaming, Inc. (Sodak).

Unless the context indicates otherwise, references to “International Game Technology,” “IGT,” “we,” “our” or “the Company” include International Game Technology and its wholly-owned subsidiaries and their subsidiaries. Our principal executive offices are located at 9295 Prototype Drive, Reno, Nevada 89511; our telephone number is (775) 448-7777.

IGT is the largest manufacturer of computerized casino gaming products and operator of proprietary gaming systems in the world and was the first to develop computerized video gaming machines. Since its founding in 1980, IGT has principally served the casino gaming industry in the United States. In 1986, IGT began expanding its business internationally, and in addition to its production in the United States, currently manufactures its gaming products in the United Kingdom and through a third party manufacturer in Japan. IGT also maintains sales offices in selected legalized gaming jurisdictions globally, including Australia, Argentina, New Zealand, Peru, South Africa and The Netherlands. We also maintain a service office in Brazil. IGT provides gaming products in every significant legalized gaming jurisdiction in the world.

The following are trademarks, service marks, and/or federally registered trademarks of International Game Technology or its wholly-owned subsidiaries: *After Shock*, *All for One*, *Diamond Cinema*, *Dollars Deluxe*, *Dynamite*, *EZ Pay*, *Fabulous 50's*, *Five Play Draw Poker*, *Game King*, *High Rollers*, *IGT Gaming System (IGS)*, *iGame*, *iGame Plus*, *Integrated Voucher System (IVS)*, *Megabucks*, *MegaJackpots*, *Monedin Joker*, *Multi-Denomination*, *Multi-Hand Poker*, *Nickelmania*, *Nickels*, *Nickels Deluxe*, *Party Time*, *Pokermania*, *Popper King*, *Psycho Cash Beast Club*, *Quartermania*, *Quarters Deluxe*, *S2000*, *S-Plus*, *Security Accounting Management System (SAMS)*, *Slotopoly*, *Super Nickelmania*, *Super Vision*, *Triple Play Draw Poker*, *Triple Play Poker*, and *Vision Series*.

IGT designs, manufactures, produces, operates, uses, and/or otherwise has permission to exploit certain gaming machines utilizing materials under license from third-party licensors. More specifically, the games which have been mentioned in this filing and their related trademark and copyright ownership information are: “*The Addams Family*” is a trademark of Monaco Entertainment Corporation; “*Elvis*, *Elvis Presley*, and *King of Rock ‘n’ Roll*” are registered trademarks of Elvis Presley Enterprises, Inc. © Elvis Presley Enterprises, Inc.; “*Jeopardy!*” is a registered trademark of Jeopardy Productions, Inc., “*Jeopardy!*” © 2000 Jeopardy Productions, Inc., All Rights Reserved; “*Wheel of Fortune*” is a registered trademark of Califon Productions, Inc., “*Wheel of Fortune*” © 2000 Califon Productions, Inc., All Rights Reserved; “*Regis’ Cash Club*” is a game developed in conjunction with Philbin Enterprises; “*\$1,000,000 Pyramid*”™ and © 2000 CPT Holdings, Inc., All Rights Reserved; “*I Dream of Jeannie*”™ and © 2000 CPT Holdings, Inc., All Rights Reserved; “*The Three Stooges*” © 2000 C3 Entertainment, Inc., All Rights Reserved; “*The Three Stooges*” characters, names and all related indicia are trademarks of C3 Entertainment, Inc.; “*The Honeymooners*” is a trademark used under license; “*Let’s Make A Deal*” is a trademark of Let’s Make a Deal, is registered in the US and is pending elsewhere, and is used under license; “*Beverly Hillbillies*” © 2000 CBS Worldwide Inc., All Rights Reserved; “*Lifestyles of the Rich and Famous*” © 2000 Rysher Entertainment, Inc., All Rights Reserved; “*The Munsters*” is a copyright of Kayro-Vue Productions and a trademark of Universal Studios, licensed by Universal Studios Licensing, Inc., All Rights Reserved; “*American Bandstand*” is a trademark of Dick Clark Productions, Inc.; “*Wheel of Gold*” and “*Totem Pole*” are federally registered trademarks of Anchor Gaming.

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In March 1998, IGT completed the purchase of Barcrest Limited (Barcrest), a Manchester, England-based manufacturer and supplier of gaming related amusement devices and formed IGT-UK Limited. Also in March 1998, IGT 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 Olympic business was consolidated with IGT-Australia.

In September 1999, IGT completed the acquisition of Sodak Gaming, Inc. Sodak distributes IGT gaming products and provides wide-area progressive systems to Native American casinos. Sodak also provides financing for gaming ventures in Native American markets.

In July 2000, IGT completed the sale of Barcrest K.K. (Barcrest-Japan) to a Japanese company engaged in the manufacture, development and sale of pachinko and pachisuro slot machines.

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 on Form 10-K 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;
- changes in interest rates causing a reduction of investment income or in market interest rate sensitive investments;
- loss or retirement of our key executives or other key employees;
- approval of pending patent applications of parties unrelated to IGT that restrict our ability 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, including regulatory or governmental actions challenging our compliance with applicable gaming regulations;
- unfavorable determinations or challenges 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;

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- the loss of sublessors of the leased properties no longer used by IGT;
- 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.

Lines of Business

We operate principally in two lines of business: the development, manufacturing, marketing and distribution of gaming products, which we refer to as "Product Sales," and the development, marketing and operation of wide-area progressive systems and gaming equipment leasing, which we refer to as "Proprietary Gaming." This segment includes our wholly-owned gaming operations and our unconsolidated joint venture activities reported as earnings of unconsolidated affiliates.

See Note 20 of Notes to Consolidated Financial Statements for information concerning the revenues, operating results and identifiable assets of our two principal lines of business and operations by geographic region. The consolidated financial statements include the accounts of International Game Technology and all of its majority-owned subsidiaries. All material inter-company accounts and transactions have been eliminated. In fiscal 2000, product sales produced 67% of revenues and gaming operations produced 33% of revenues.

Product Sales

IGT designs, manufactures and markets computerized casino gaming products and systems for both domestic and international markets. Domestically, IGT manufactures a broad range of gaming machines, consisting of traditional spinning reel slot machines, video gaming machines, government-sponsored and other video gaming devices. In international markets, we target the amusement with prize, casino-style, private clubs, gaming-hall and government-sponsored video machine markets. For our domestic and certain international markets, we offer hundreds of recognized 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. In the North American gaming market, IGT holds a estimated 67% share of the installed base of casino gaming machines and an estimated 59% share of the combined installed base of both casino-style and government sponsored gaming machines. We believe our market share is the result of our innovation in video and slot technology, the efforts of our experienced sales force and our focus on customer service and product reliability.

Gaming machines for the casino markets in Australia, Europe, South Africa and Latin 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 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.

Description of Product Sales

IGT's innovations in slot and video technology have increased the earning potential of our gaming machines by enhancing entertainment value through creative uses of sound, bonus features and overall aesthetics. We also focus on improving the ease and speed-of-play of our machines by incorporating local game preferences, and by minimizing downtime through improved reliability and added service features. IGT's new gaming machines offer a wide variety of themes, innovative designs, sophisticated security features, self-diagnostic capabilities and various accounting and data retention functions.

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Over the past decade, significant increases in the installed base of gaming machines have been driven by the growth in the number of jurisdictions with legalized gaming, advancements in gaming machine technology, and the increasing popularity of large theme-based casinos. IGT estimates that in North America slot machine revenue accounts for nearly 70% of total casino revenues. IGT was the first to develop computerized video gaming machines and currently offers the largest variety of gaming machines in this market. When making purchasing decisions, casino operators look for machines with enhanced entertainment value such as secondary games or bonusing features, superior graphics and audio and recognizable game themes.

Multi-line, multi-coin video-based games are currently among the most popular games on the floor. In response to this trend, IGT's current products employ advanced technology to enhance entertainment and communication features while retaining many of the familiar and popular features of older games. These product lines include: The *Game King*® video platform, which offers a single or multi-game format with a touchscreen monitor; the *iGame Plus*™ video machine, an interactive video game with animated graphics and secondary bonusing features; the *Vision Series*™, a spinning reel slot combined with a full-color liquid crystal display; and the *S2000*™ spinning reel platform which combines the reliability and game library of IGT's traditional *S-Plus*™ machine with upgraded processor boards and an enhanced sound package.

As these new games are installed, the earnings disparity between the older and newer machines on the casino floor widens, and the replacement cycle is stimulated. In addition, all of IGT's newer games will be available in a *Multi-Denomination*™ format and can be readily adapted for use with IGT's *EZ Pay*™ system or other ticket in/ticket out (TITO) systems. We believe the introduction of new, more sophisticated interactive games combined with the added cost savings, convenience and other benefits of TITO systems will help stimulate the replacement machine market.

One of IGT's newest products, the *EZ Pay*™ Ticket System, targets the casino operator's need to reduce operating costs and machine downtime. This product provides our customers with a system that allows machines to print tickets in place of dropping coins from the hopper. In many cases the printing of a ticket eliminates the delays encountered when a large payout requires the personal attention of a casino employee. The system also provides the machines with the capability of accepting tickets. This provides players with the added flexibility to move from one machine to another without the inconvenience of coin handling. Casinos will have the option to use both hoppers and tickets in IGT's machines connected to the *EZ Pay*™ Ticket System. We believe this offers casino operators and players the most flexibility while the industry explores player preferences with respect to ticket based products. *EZ Pay*™ machines will also enable the player to select any denomination he or she prefers. Our *Integrated Voucher System (IVS)*™ product was also introduced during the last quarter of fiscal 2000. The *IVS*™ product offers *EZ Pay*™ system functionality, but can be integrated with a casino's existing slot accounting system. This integration provides additional efficiencies to casino operators who are looking to maximize the automation of accounting controls and other functions. Initial customer response to this technology has been positive and we believe this segment will be a significant driver of the machine replacement market over the next several years.

Gaming machines in Japan and the United Kingdom markets differ substantially from domestic machines. In the United Kingdom, IGT manufactures and sells amusement with prize (AWP) machines. An AWP machine is a game of chance with low stake wagering for amusement with low value cash prizes, typically under \$25. In the Japanese market, IGT manufactures and sells pachisuro machines. A pachisuro machine is a three-reel slot machine played with tokens and is considered a skill game, which allows the player to control the stopping of the reels.

In fiscal year 2000, IGT continued installing the *IGT Gaming System (IGS)*™, which supports casinos' control and information needs. The *IGS*™ product is a 14 module integrated casino system which includes player tracking, pit cage and credit, and slot management, plus specialized modules including bus scheduling and events management. The *IGS*™ product is approved, marketed and operational in most domestic jurisdictions as well as Australia, Canada, Portugal and South Africa.

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The following schedule sets forth net revenues derived from gaming product sales for the fiscal years ended:

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|------------------------------------|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Gaming products | | | |
| Video products | \$263,412 | \$189,625 | \$177,804 |
| Spinning reel slot | 133,251 | 162,310 | 161,716 |
| Amusement with prize | 75,359 | 78,947 | 32,225 |
| Pachisuro | 34,787 | 55,328 | 17,466 |
| Other gaming products ¹ | <u>96,572</u> | <u>90,388</u> | <u>87,813</u> |
| Total product sales | <u>\$603,381</u> | <u>\$576,598</u> | <u>\$477,024</u> |

¹Other gaming products includes revenues from gaming systems, lottery systems, parts, equipment and service.

Demand for Gaming Products

Demand for IGT's gaming products comes principally from four sources: the establishment of new gaming jurisdictions; expansions of existing casinos; addition of new casinos within existing gaming markets; and the replacement of older and/or technically obsolete machines. The replacement cycle is driven primarily by competition in the casino industry to provide the customer with more entertaining and sophisticated games combined with enhanced features such as multi-denomination capability and TITO technology. To maximize our opportunity in the replacement market, we are increasing the number of new games released each year and focusing our product development efforts on creating games that provide enhanced entertainment value as well as utilizing numerous popular game themes and concepts.

Technological advances, new designs, improvements in visual characteristics, the development of new games, general wear and tear and the evolving preferences of casino patrons also drive replacement. The construction of new casino properties also has an impact on the replacement machine market since, historically, the addition of new properties has encouraged existing casinos to upgrade to new slot products in order to remain competitive. Demand for replacement products is also dependent, in part, upon the willingness of casinos to incur the costs associated with replacing existing gaming machines with new machines.

Product Development

The most significant factor influencing the purchase of all types of gaming machines is player appeal followed by a mix of elements including service, price, reliability, operational efficiencies, technical capability and the financial condition and reputation of the manufacturer. Player appeal is the combination of machine design, hardware, software, game features and ease of play that ultimately improves the earning power of gaming machines and the operator's return on investment. To increase the player appeal of our machines, we have made significant investments in research and development of products tailored toward the specific demands of our customers as well as the users of our products. In this context, IGT developed numerous themes with a variety of ideas and concepts. In fiscal year 2000, IGT debuted more than 40 new offerings, most of which were directed at the growing multi-line, multi-coin video slot market. IGT expects to debut a greater number of games in fiscal year 2001. As with all new games, these machines are subject to regulatory approval. Using our Megatest, an on-line computerized testing and monitoring system, to evaluate and forecast acceptance of new products, IGT is able to evaluate and quickly focus on the more popular gaming concepts. Megatest uses a central computer to monitor the performance of games placed in a representative sample of casinos throughout Nevada. The Megatest program allows IGT to test games in a relatively short time span with a high degree of accuracy, which results in the quicker release of higher-performing games.

In international markets, our strategy is to respond to developing markets with local presence, customized games, new product introductions and local production where feasible or required. For the European casino market, Barcrest has designed the "Enhanced" series of reel-based, casino-style games to complement the current product offerings in the market. The Enhanced machine incorporates top box technologies designed in the UK with our casino-style machines to

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add bonus features and will continue to be marketed by IGT-Europe. In Australia, several platforms were replaced with one common platform featuring enhanced technologies. This new product will become the IGT-Australia standard and is supported by two game design centers. IGT-Japan's engineering department has expanded in order to continue to develop new technologies for the pachisuro market and expects to release a new platform during fiscal 2001.

North American Markets

In the last decade, the increased legalization of gaming in new jurisdictions, expansion in existing gaming markets and growing popularity of gaming as a leisure activity has influenced demand in North America and presented growth opportunities for IGT. The introduction of riverboat gaming in the Midwest, the expansion of Native American casino gaming, including the opening of the California market, and the growth in the Canadian, Nevada and non-casino government-sponsored gaming markets have all expanded the market for gaming machines.

IGT's machine sales in North America increased by approximately 3,600 units in fiscal year 2000 as compared to fiscal 1999 due primarily to the opening of the Native American casino market in California. Fewer new casino openings contributed to slower growth in certain domestic jurisdictions including Canada, Colorado, Nevada, and cruise ship markets.

Nevada

Throughout the 1990s, the addition of new casinos with enhanced entertainment and leisure activities has stimulated demand for our machines in this market. The expansion or refurbishment of existing operations and replacement of older gaming machines also increased demand for our machines. Nevada's developing nickel video reel and traditional video poker markets are expected to drive implementation of TITO systems much faster than many of the newer jurisdictions.

In fiscal year 2000, we provided gaming machines to two major new casinos, Suncoast and Aladdin, and to two smaller casino openings, Arizona Charlies East and The Hacienda, all in Las Vegas. Several other Nevada properties underwent smaller-scale expansions. The majority of the sales in fiscal year 2001 are expected to be for expansions and replacements with the exception of Terribles Casino in Las Vegas, which is scheduled to open in early fiscal year 2001.

Midwest Gaming

Riverboat-style gaming began in Iowa in 1991 and currently is operating in Illinois, Indiana, Iowa, Louisiana, Mississippi and Missouri. In late fiscal year 2000, IGT shipped machines to the following new properties, which are expected to open in early fiscal year 2001: Hollywood Park in Louisiana and Belterra, a Pinnacle Entertainment property in Indiana. Lakeside Ocoala in Iowa was the only new opening in this region in fiscal year 2000. IGT provided gaming machines to the Greektown, the third temporary casino in Detroit, which is expected to open in early fiscal year 2001. The permanent casinos in Michigan are expected to add 4,000 machines to the market in the next three to five years.

Atlantic City

The Atlantic City market consists of 12 large casinos, which are concentrated in the mature boardwalk area and the marina district. During fiscal year 2000, Boyd Gaming and MGM Mirage began construction of the Borgata, a marine area-property, which is expected to open in 2003. MGM Mirage has announced plans to construct another new casino in Atlantic City within the next three years. In addition, Trump Hotels and Casino Resorts plan to raze the World's Fair Casino and replace it with a new casino property. Recent changes in the gaming approval process in this jurisdiction may also serve to stimulate new games by accelerating approval times and allowing a greater number of popular themes to be introduced.

Native American Gaming

Casino-style gaming continued to expand on Native American lands during fiscal year 2000. Native American gaming is regulated under the Indian Gaming Regulatory Act of 1988, which permits specific types of gaming. Pursuant to these regulations, permissible gaming devices are denoted as "Class III Gaming" which requires, as a condition to

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implementation, that the Native American tribe and the state government in which the Native American lands are located enter into a compact governing the terms of the proposed gaming. We place machines with Native American tribes who have negotiated compacts with their respective states and have received approval by the US Department of the Interior.

IGT, through Sodak, began selling machines to authorized Native American casinos in 1990, and to date has sold machines or components to Native American casinos in 17 states. Sodak maintained a distributor relationship with IGT from 1990 until September 1999 when IGT acquired Sodak. Sodak provides financing for its product sales and, in some instances, has participated in the development, equipping, and financing of gaming ventures.

In March 2000, the California constitution was amended to allow the Governor to compact with tribes for the operation of casinos including the operation of traditional slot machines. The Governor, with the legislature's approval, has entered into compacts with 61 California tribes. We commenced sales in California immediately after the initial compacts were approved by the US Department of the Interior in May 2000. This market potential is estimated at 43,000 machines based on the language in the compacts between the Governor and the tribes. The portion of the compacts that defines machine limits can be renegotiated in March of 2003, but there is no assurance renegotiations will occur, or that they would result in increased machine numbers.

Gaming expanded to the state of Washington in 1999 where the Governor signed compacts with 19 tribes that permit electronic gaming devices, linked to a central determination system, at the Native American casinos. Sierra Design Group (SDG) manufactures and distributes terminals and systems designed specifically to comply with the Washington compacts. IGT provided manufactured components to SDG for approximately 4,300 terminals for the Washington market; 2,300 in fiscal year 2000 and 2,000 in fiscal year 1999.

In addition to potential new markets, the replacement of older machines may offer the potential for additional sales. Native American gaming experienced rapid expansion in 1992 and 1993, suggesting that a greater proportion of the installed machine base may be entering the replacement cycle, based on overall gaming industry trends.

Canada

We currently provide spinning reel slot machines to all Canadian provincial governments operating or authorizing casino-style gaming, including Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec, Saskatchewan and Yukon. The expansion of existing casinos and opening of new properties in Alberta, British Columbia and Ontario may create demand for approximately 5,000 new machines. In fiscal 2000 we introduced leased games into Alberta, Ontario, and Quebec casinos. The Canadian lease market is expected to continue to expand into additional jurisdictions due to the demonstrated success of properties utilizing leased IGT games.

In fiscal year 2000, business opportunities in Canada prompted IGT to expand its distribution agreement with the New Brunswick-based Hi-Tech Gaming.com, Ltd. (Hi-Tech) to include machine and systems sales, in addition to parts and service. While IGT will continue to maintain a corporate presence in Canada, we expect this new distribution agreement with Hi-Tech to provide the increased infrastructure necessary to service the anticipated growing volume of business.

In addition to government sponsored or approved casino gaming, the provinces of Alberta, Manitoba, New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island, Quebec and Saskatchewan operate video gaming terminals (VGTs). In the past year Lotto Quebec issued a request for proposal (RFP) calling for the replacement of 15,000 VGTs, while the Atlantic Lottery Corporation (ALC) issued an RFP for 3,000 VGTs. The Western Canada Lottery Corporation (WCLC) is expected to issue RFPs for the replacement of 6,000 VGTs in Alberta and 3,500 VGTs in Saskatchewan during the coming year. IGT through Hi-Tech has submitted bids for the ALC and Quebec RFPs, which are currently being evaluated. It is expected that bids will also be submitted for the WCLC and Saskatchewan RFPs once they are released.

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International Markets

IGT has sold to international markets since 1986. Each model must comply with the individual country's regulations. We respond to the specific requirements of a number of international jurisdictions by maintaining a local presence and by providing products appropriate for each market.

Our unit sales in international markets are as follows:

| | Fiscal 2000 | Fiscal 1999 |
|--------------------------------|------------------------|------------------------|
| Jurisdiction | | |
| United Kingdom ¹ | 33,400 | 31,500 |
| Japan | 14,600 | 27,900 |
| Australia and New Zealand | 6,700 | 6,700 |
| Europe, Middle East and Africa | 3,300 | 2,800 |
| Latin America | 2,200 | 3,900 |
| South Africa | 1,500 | 1,100 |
| Other | <u>600</u> | <u>1,000</u> |
| Total | <u>62,300</u> | <u>74,900</u> |

¹ Includes 15,500 AWP machines exported to Europe in fiscal year 2000 and 7,400 machines in fiscal year 1999.

Australia and New Zealand

We established manufacturing, sales, marketing and distribution operations in Sydney in 1985 and began selling gaming machines in Australia in 1986. Australia is the largest and most established market for gaming products outside of North America and is primarily a video machine market. The installed base for machines is approximately 200,000 units in the casino, hotel, pub and club markets in Australia and New Zealand. Our installed base in this region is approximately 46,000 units or 23%. In both fiscal years 2000 and 1999, IGT had sales of 6,700 machines. This year has again been one of intense competition between manufacturers as a result of the limited growth and technologically advanced products.

In March 1998, we acquired the assets of Olympic Amusements Pty. Limited (Olympic), an Australian-based manufacturer and supplier of electronic gaming machines, gaming systems and other gaming equipment and services in an effort to enhance our existing operation. As a result of the acquisition, approximately \$100 million in intangible assets were recognized. After the acquisition, IGT-Australia experienced difficulties with the planned integration of Olympic, changes in management, adverse changes in the regulatory environment, product performance issues and new competition. As a result, we lost market share while our competition prospered in this market. In the fourth quarter of fiscal 1999 we determined that the total unamortized balance of intangible assets was fully impaired. See Note 8 of Notes to Consolidated Financial Statements. In an effort to return IGT-Australia to a profitable operation, we developed a restructuring plan during late 1999 and implemented the changes during the current fiscal year. These changes included narrowing product lines, downsizing our sales, service and engineering departments and transferring manufacturing to Reno.

In April 2000, the New South Wales (NSW) state government announced that it would place a twelve-month moratorium on the number of new slot machines permitted by registered clubs. There is the possibility that this moratorium will be extended, thereby affecting the growth in this market. In Queensland, similar "responsible gambling" restrictions were adopted during fiscal 2000, where the limit on the number of gaming machines was set at 280 for clubs and 40 for hotels. Other Australian jurisdictions are considering similar measures. We can't determine the effect this will have on future sales.

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In July 2000, we introduced a new machine platform with eight new games. It has been approved in the jurisdictions of NSW, Queensland and New Zealand. Initial response to this new product line has been very positive. The performance of the new games has been very strong, particularly in the lower denominations. There are currently a number of additional games in development.

United Kingdom

We established a manufacturing, sales, marketing and distribution operation in Manchester, England with our acquisition of Barcrest Limited in March 1998. Barcrest manufactures and sells amusement with prize machines, club machines and top box products. AWP machines are approximately half the price of our domestic *S-Plus*[™] product and have a replacement cycle of less than 18 months.

The AWP installed base in the United Kingdom (UK), which is not expected to grow in the near term, exceeds 220,000 units, located in a variety of outlets including pubs, clubs, bingo halls, casinos, licensed betting offices and arcades. The UK has a review every three years of the stake and prize regulations for AWP machines. During fiscal year 2000, the UK market for AWP machines was 53,000, down from 63,000 in fiscal year 1999, which had benefited from increased demand following a change in stake and prize regulations. This replacement market is dominated by bars and licensed betting offices that demand regular releases of new machines. To meet this demand, new products are launched in the UK every four to six weeks. In fiscal year 2000, AWP sales in the UK totaled 14,905 units, approximately 29% of the market.

In response to the European market's continual need for new and innovative AWP products, in fiscal year 2000 Barcrest launched a new design center, Red Gaming, and re-named its BWB business to Vivid Gaming. Red Gaming is presently focused on development for the UK market and has received orders for its first game, *After Shock*[™], to be delivered during the first quarter of fiscal year 2001. Vivid develops product for the European leisure industry. It launched its first game, *All For One*[™], in June 2000 and sold 900 units of this machine in fiscal year 2000.

We also sell AWP products, through distributors, in Germany, Spain, The Netherlands and other smaller European markets. The total European market size for AWP products is 800,000 machines with an annual replacement market of approximately 113,000 machines. Export opportunities arise as various governments recognize the benefits of AWP products. To capitalize upon these opportunities, we have research and development centers in The Netherlands and Spain, which design machines for various European markets. In FY 2000, Barcrest's research and development center in Spain launched the highly successful product, *Monedin Joker*[™]. The company's success in the Spanish market resulted in an increase to 7,600 unit shipments in fiscal year 2000, compared to 575 machines in the prior year. During the year, UK manufacturers exported approximately 40,000 machines to Europe, up from 24,000, of which approximately 37% were Barcrest products.

Club machines are more simply designed AWP products offering higher maximum wagers and cash prizes. These machines are replaced less often and are located in private member clubs and bingo halls. The UK club market has an installed base of approximately 60,000 units with an annual replacement market of approximately 5,300 machines. Barcrest produced the most successful club machine in the UK market, *Psycho Cash Beast Club*[™], which sold 900 units. In fiscal year 2000, our total club sales in the UK were 1,600 units, a 29% market share.

Barcrest designs and manufactures top boxes, which are attached to IGT's domestically produced casino-style machines. These top boxes add a bonus feature, which increases the player appeal of these games. In July 1999, we began providing all of our top boxes, excluding *Party Time*[™], to our joint venture with Anchor Gaming for sale to the casino customer. The *Party Time*[™] top box is used with IGT's domestic *MegaJackpots*[™] machines.

Europe, Middle East and Africa

In 1992, we opened our office in The Netherlands to service the European, Middle Eastern and African markets, excluding South Africa. In these regions, gaming is prevalent in casinos and non-casino environments such as pubs, bars and

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arcades. Within the European markets, casino-style gaming machines compete with AWP machines, which we sell exclusively through our Barcrest office.

We estimate that throughout this region, the market base of legally installed casino-style gaming machines is approximately 68,000 units. Of these machines, we estimate our share at 19,000. In fiscal year 2000, we made sales of approximately 3,300 machines in this market, compared to 2,800 machines in fiscal year 1999. The majority of our fiscal year 2000 sales were to gaming operations in France, Greece, Italy, Portugal, Slovenia, Spain, Sweden and The Netherlands. We currently anticipate moderate growth in the European installed base and our sales to this market will be principally dependent upon replacement sales. Our market share improvement is due to the success of our new product rollout, specifically relating to the new video product. Additionally, this proved to be a successful year with the rollout of the *IGS*TM product in the European market. The *IGS*TM product was selected as the system of choice by the Portuguese government resulting in a successful launch of three *IGS*TM systems in July 2000.

South Africa

Our office in Midrand, Gauteng, South Africa services the gaming markets located in South Africa, sub-Saharan Africa and the Indian Ocean Islands. Casino gaming in South Africa is governed under the National Gambling Act, which has allocated a total of 40 casino licenses among each of the nine provinces in South Africa. All 40 licenses are expected to be operational by the year 2003. There are currently 19 operational casinos in the country with five additional new casinos opening by the end of the calendar year. The new casino that opened in the fiscal year 2000 was Desert Palace in the Northern Cape Province. Of the five new casinos to be opened, three will be in the Western Cape Province, one in KwaZulu Natal and one in the Eastern Cape.

By the end of fiscal year 2000, IGT-Africa was licensed as a manufacturer/supplier in six of the nine provinces. We will receive licensure in one other province in the first quarter of fiscal year 2001. We have an application pending in one other province. The only remaining province to call for licenses is the North West Province where five of the original casinos are located.

During fiscal year 2000, we sold 1,500 machines in the South Africa casino market, compared to 1,100 units in fiscal year 1999. We rank second in market share in this region with 30% of unit sales. The majority of these sales were to new casinos due to open later in the year including Tsogo Sun's permanent casino.

South Africa is also in the final stages of legalizing a limited payout market (LPM). The LPM permits smaller venues to operate a maximum of five machines, with each machine limited to a maximum payout of 500 Rand or approximately US \$70. The National Gambling Act and the provincial gambling acts govern these smaller venues, which include bars, taverns, and social or sports clubs. The National Gambling Board has recently called for RFPs for the Central Monitoring System. We anticipate that the first limited payout machines will begin operating in mid to late calendar 2001. We estimate the total size of this market will be approximately 38,000 machines.

Japan

Historically we have serviced the Japanese market with two offices in Tokyo: IGT-Japan, established in 1992; and Barcrest-Japan, acquired in 1998 as part of the Barcrest acquisition. In July 2000, Barcrest-Japan was sold to a Japanese pachisuro manufacturer. The pachisuro machine is a three-reel slot machine played with tokens and is considered a skill game as the player controls the stopping of the reels. Payouts are relatively small. The product is regulated by the Security Electronics and Communication Technological Agency (SECTA), which ensures compliance with regulations mandated by the National Police Agency. Pachisuro machines are more fashion-driven and sell for approximately a third of the price of our domestic *S-Plus*TM machine. These machines are licensed for three years. However, they typically have a replacement cycle of less than 12 months.

The pachisuro-installed base in the Japanese market is over 1,000,000 machines in approximately 17,000 halls and sites throughout the country. There are 22 manufacturers that are members of the Nichidenkyo (NDK) manufacturer's

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association and licensed to sell in this market. IGT-Japan became the first foreign member of NDK in 1992 and a full member in 1995.

In Japan, we utilize third party manufacturers to produce our machines and distributors to sell our products. The distributors sell to hall operators and to second-tier distributors. IGT-Japan also has an in-house sales team to market products directly to customers in Nagoya, Sendai and Tokyo.

During fiscal 2000 we sold 14,600 units in the Japanese market compared to 27,900 units in the prior fiscal period. Fiscal 1999 was our most successful year ever in this market as a result of the strong customer acceptance of our *Popper King*[™] product. The relatively short selling cycle of three to four months for any one new game release makes success in this market highly dependent upon the ability to regularly introduce popular new games.

Latin America

We sell casino-style gaming equipment to many legalized gaming jurisdictions in Latin America through our established offices in Argentina, Miami, Peru, and our distributor in Venezuela, Starwin. During fiscal year 2000, IGT sold 2,200 machines in Latin America compared to 3,900 machines in the previous fiscal year. Sales decreased due to new laws in Brazil, which effectively closed that market, and government delays in granting new operator licenses in Venezuela.

Proprietary Gaming

Our proprietary gaming segment includes our wholly owned-gaming operations and our unconsolidated joint venture activities reported as earnings of unconsolidated affiliates.

We have developed and operated wide-area progressive systems, collectively referred to as *MegaJackpots*[™], since 1986. As of September 30, 2000, IGT operated 149 systems in 17 domestic jurisdictions, including Native America, Nevada and New Jersey, under the following names or trademarks: *The Addams Family*[™], *Dollars Deluxe*®, *Elvis*®, *Fabulous 50's*®, *Five Play Draw Poker*[™], *High Rollers*[™], *Jeopardy!*®, *Megabucks*®, *Nickelmania*[™], *Nickels*[™], *Nickels Deluxe*®, *Party Time*[™], *Pokermania*®, *Quartermania*®, *Quarters Deluxe*®, *Slotopoly*[™], *Super Nickelmania*[™], *Totem Pole*®, *Triple Play Draw Poker*[™], *Wheel of Fortune*®, and *Wheel of Gold*®. These games may be offered in different denominations in each jurisdiction. Internationally, our IGT-Europe office supports one *MegaJackpots*[™] system, operated under the name Gullnaman in Iceland. Approximately 5% of the domestic installed base of gaming machines generates 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 connect 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.

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.

IGT continually provides innovation and enhanced player appeal to its *MegaJackpots*[™] games consistent with product lines that are sold directly to the casinos. This is accomplished through the introduction of feature rich games with second event bonus incorporating popular themes, such as *The Addams Family*[™] and video *Jeopardy!*®, which were introduced in fiscal year 2000. New themed product introductions planned for fiscal year 2001 include the *Regis' Cash Club*[™] and *\$1,000,000 Pyramid*[™] games.

IGT operates some of these systems under joint marketing alliances with other gaming companies, principally with Anchor Gaming (Anchor). The purpose of these strategic alliances is to combine the game development efforts of other companies with IGT's wide-area progressive system expertise. The *Wheel of Fortune*® game, which is offered through

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the Anchor joint venture, began in December 1996 in Nevada and New Jersey with approximately 240 machines, and as of September 2000, 11,500 machines were operating in 17 jurisdictions. The *I Dream of Jeannie*[™] wheel game is planned for introduction in fiscal year 2001 under the same joint venture. In addition, we entered into a licensing, development and marketing agreement in fiscal year 2000 with Shuffle Master to further develop Shuffle Master's licensed intellectual properties, *The Three Stooges*[®], *The Honeymooners*[™] and *Let's Make A Deal*[®]. Introduction of these products is planned for fiscal year 2001.

We also supply certain *MegaJackpots*[™] games as "stand alone" games that are proprietary in nature but not linked to a progressive system. In certain jurisdictions, these games are either leased on a per machine per day basis or are operated under a revenue sharing agreement. This additional marketing tool was created for the customer that didn't want to contribute to a large jackpot, yet still wanted our games on the floor. They are installed in Canada, Colorado, Connecticut, Illinois, Indiana, International cruise ship markets, Iowa, Louisiana and Nevada. Approximately 3,600 machines are operated as stand alone games. Most of these games were developed in connection with the Anchor joint venture.

We recognize that all games, including *MegaJackpots*[™] systems games, have a finite life cycle. As a result, IGT systematically replaces, either wholly or in part, older systems experiencing declining play levels with new systems that incorporate enhanced entertainment value and improved player appeal. This serves to increase revenue generation overall as well as on a per unit basis for both IGT and our customers. During fiscal year 2000, IGT removed 19 *MegaJackpots*[™] systems in eight jurisdictions.

The operation of linked progressive systems varies among jurisdictions as a result of different gaming regulations. In all jurisdictions, the casinos contribute a portion of the wagered amount to fund the progressive jackpot. Funding of the progressive jackpot differs by jurisdiction but is generally administered by IGT. Jackpot winners may elect either a single payment of the discounted value of the progressive jackpot, or annual installments which are paid out over 20 to 26 years depending on the system and jurisdiction. Many of our new products are Instant Winner systems, which pay the full jackpot amount in one sum when won. In Atlantic City, the progressive jackpot fund is administered by a trust managed by representatives of the participating casinos. The trust pays IGT fees for annual licensing and machine rental. In Colorado, funding of progressive jackpots is administered by a separate fund managed by IGT. Progressive system lease fees or a portion of the amount contributed by the casinos is paid to us from this fund. In Iowa, the progressive jackpot fund is administered by a trust managed by IGT and net profits are transferred to IGT.

Lease and Other Gaming Operations

IGT also receives gaming operations revenue from machines and systems on lease, rental and other recurring revenue agreements. Lease revenue increased in fiscal year 2000 due primarily to royalty revenue earned on our most popular game, *Triple Play Draw Poker*[™], which is operational in various domestic jurisdictions. These machines are placed under a royalty agreement whereby casinos pay Action Gaming, the company that holds a patent for the game concept, and IGT a monthly royalty fee.

IGT currently leases machines to three state lotteries: Delaware, Oregon and Rhode Island. Under a technology provider license with the Delaware State Lottery, IGT leases approximately 2,400 terminals to the state at three pari-mutuel facilities. During the past year we added 540 terminals. Under the technology lease with the Delaware State Lottery, which will expire in December 2001, we receive a percentage of revenue for use and maintenance of these machines. We lease approximately 2,200 video gaming terminals to the Oregon State Lottery under a lease agreement expiring in April 2002. We also have machines on Rhode Island's video lottery system, which links two pari-mutuel facilities. As of September 30, 2000, there were approximately 400 IGT terminals operating in Rhode Island's system.

In 1999, we entered into a license agreement with the West Virginia Racing Association for IGT's *SAMS*[™] system that will monitor approximately 6,000 machines at the state's four pari-mutuel facilities. The West Virginia Lottery will operate this system while IGT will provide hardware and software maintenance. We successfully installed the SAMS system in West Virginia in 2000 and will complete the installation of the progressive portion during fiscal year 2001. IGT shipped more than 1,500 terminals to four pari-mutuel facilities in West Virginia during fiscal year 2000.

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As part of our normal business, we also receive other recurring revenue in various jurisdictions from short-term rental contracts or long-term lease contracts for gaming machines.

Business Strategy

IGT's product development staff works to provide innovation in gaming machines and related computer system technology. IGT invested approximately \$55.2 million in research and development in fiscal year 2000. Innovations from these efforts increase our gaming machines' earning potential through enhancements in entertainment value, ease of play, and decreased machine downtime. Machine downtime is minimized by improvements in product reliability and functionality. IGT's creative designs enhance player entertainment with features such as larger jackpots, choreographed sound events, multiple interactive bonus features and unique mechanical packages. The introduction of innovative products, *Multi-Denomination*[™] capability and TITO technology is anticipated to shorten the replacement cycle by encouraging casino operators to upgrade to new products which improve earnings and operating efficiencies.

To capitalize on future opportunities, management is committed to:

- innovative new product development such as our *Game King*[®], *iGame Plus*[™], *Vision Series*[™], *S2000*[™], *Super Vision*[™] and *Game King*[®] SI platforms; *EZ Pay*[™] (TITO) and *Multi-Denomination*[™] technology;
- development and rollout of new wide-area progressive systems such as *The Addams Family*[™], video *Jeopardy!*[®] nickel, 15-line *Wheel of Fortune*[®] nickel, *Wheel of Fortune*[®] video quarter, video *Megabucks*[®] nickel, *Regis' Cash Club*[™], *Diamond Cinema*[™], *Beverly Hillbillies*[™], *Lifestyles of the Rich and Famous*[®], *The Munsters*[™] (New Jersey only), *\$1,000,000 Pyramid*[™] and *American Bandstand*[®] games;
- continued focus on customer service and reliability through our more than 300 trained sales and service personnel;
- increased focus on opportunities to roll out IGT products and systems into new markets including international jurisdictions;
- enhancement of our industry-leading game library with strong new offerings for all product lines both domestically and internationally; and
- ongoing improvements to our *IGS*[™] products that answer industry demands for improved operational efficiencies.

Sales and Service

Sales and Distribution

Our products and services are sold to gaming operators and governmental entities, which conduct gaming operations. During fiscal year 2000, our ten largest domestic customers accounted for 33% of our domestic gaming product sales. IGT markets gaming products and proprietary systems through its internal sales staff, agents and distributors. We employ more than 300 sales personnel in various domestic and international locations.

IGT uses distributors for sales to specific markets including Canada, the Caribbean, France, Germany, Japan, Korea, Louisiana, New Jersey, New Mexico, New Zealand, Spain, The Netherlands and Venezuela. Sodak was our exclusive distributor to Native American casinos until we acquired it in September 1999. IGT's agreements with distributors do not specify minimum purchases, but generally provide that IGT may terminate the distribution agreement if certain performance standards have not been satisfied.

Customer Service

IGT considers its customer service department an important aspect of the overall marketing strategy and a key differentiating factor when casino operators purchase equipment. We typically provide a 90-day service and parts warranty domestically and up to a 180-day warranty internationally, for our gaming machines. We employ more than 300 trained service personnel for customer assistance and maintain 20 customer service support centers domestically in 11 jurisdictions and internationally in Argentina, Australia, Brazil, Japan, New Zealand, Peru, South Africa, The Netherlands and the United Kingdom.

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We also provide extensive customer education and service through training, videotaped instruction, a 24-hour customer service hotline, newsletters, our website, www.IGT.com, and the Technical Assistance Center (TAC). The TAC is a fully staffed facility providing 24-hour telephone support to all types of casino system customers. The TAC has access to a range of field support engineering resources to resolve technical issues. Through these extensive resources, IGT provides a direct link for two-way communication between the customer and IGT and access to product information 24 hours a day, seven days a week.

Competition

The market for gaming machines and proprietary systems is intensely competitive. The principal method of competition is product development. A library of strong performing games can be a significant competitive advantage. Other methods of competition include quality and reach of sales and service organizations, financial stability of the manufacture, and pricing.

Product Sales

US and foreign manufacturers which compete with IGT in the domestic casino-style gaming machine market include Anchor, Aristocrat Leisure Limited (Aristocrat), Bally Gaming Inc., a subsidiary of Alliance Gaming Corp. (Bally), Atronic Casino Technology, Ltd. (Atronic), Casino Data Systems (CDS), Konami Co. Ltd. (Konami), Sigma Game, Inc. (Sigma), Silicon Gaming, Inc. (Silicon), Universal Distributing, Inc. and WMS Industries, Inc. (WMS). All have developed casino products and are either authorized to sell products or are in the licensing process in many US gaming jurisdictions. There are several competitors for the international markets including Aristocrat, Atronic, Aruze, formerly known as Universal, Cirsia Group, Franco Gaming, Ltd., a division of Recreativos Franco, Konami, and Novomatic Industries. In the accounting and player tracking systems product market, our *IGS*[™] system competes with products offered by Bally, CDS and several other systems manufacturers.

We consider ourselves one of five primary competitors in the linked gaming market along with Anchor, GTECH Holdings Corp. (GTECH), Spielo, a supplier based in Canada, and WMS. These suppliers have substantial resources, established presence in the lottery market, and specialize in the development and marketing of gaming terminals to governments. We continue to view the video lottery industry as an important market for our products.

Proprietary Gaming

IGT's competitors in the progressive systems market are Bally and CDS, who each operate one system. IGT's competitors in the stand alone participation market are Anchor, Bally, CDS, Mikohn Gaming Corp, Silicon, and WMS. We provide substantial marketing and advertising support for our *MegaJackpots*[™] systems products and compete on the basis of our progressive systems brand names, product appeal, jackpot awards, player loyalty and technical and marketing experience.

Manufacturing and Suppliers

We manufacture gaming machines in the United Kingdom, the US and through a manufacturing relationship with a third party in Japan. The manufacturing operations primarily involve the assembly of electronic components, cables, harnesses, video monitors and prefabricated parts purchased from outside sources. We also operate a cabinet manufacturing and silkscreen facility in the US. IGT has a broad base of material suppliers and utilizes multi-sourcing practices to assure component availability. Domestic manufacturing has been ISO 9002 certified since 1996. As part of our restructuring plan for IGT-Australia, we began manufacturing the IGT-Australia product lines in the Reno, Nevada facility in fiscal year 2000.

IGT generally carries a significant amount of inventory due to the broad range of products it manufactures and to facilitate its capacity to fill customer orders on a timely basis. At October 30, 2000 and 1999, we had an estimated \$196.4 million and \$50.1 million in backlog orders. The backlog has increased due to a large influx of orders in the fourth quarter of

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fiscal year 2000. In response, production has increased output significantly and the backlog, as well as production lead-times are expected to decrease within fiscal year 2001.

Our research and development activities totaled \$55.2 million, \$45.5 million and \$38.1 million for the fiscal years 2000, 1999 and 1998. Research and development activities for specific customers are charged to cost of product sales and totaled \$300,000, \$1.2 million and \$900,000 for fiscal years 2000, 1999 and 1998.

Patents, Trademarks, Copyrights and Trade Secrets

IGT believes that its patents, trademarks, copyrights and trade secrets (intellectual property rights) are significant assets. IGT seeks to protect its investment in research and development and the unique and distinctive features of its products and services by perfecting and maintaining its intellectual property rights. IGT has obtained patent rights protection covering many of its products. It has a large number of United States and foreign patent applications pending. The subject matter of these patents and patent applications include game designs, bonus and secondary game features, gaming device components and a variety of other aspects of video and electronic slot machines and associated equipment. Most of IGT's products are sold under trademarks and copyrights that provide product recognition and promote widespread acceptance. IGT creates and licenses trademarks and copyrighted works. Some of these trademarks and copyrights relate to products that are significant to IGT.

There can be no assurance that the intellectual property rights of IGT will not be infringed or that others will not develop products that do not violate these intellectual property rights. No assurance can be given that IGT's pending applications to obtain additional intellectual property rights will be granted.

Employees

As of September 30, 2000, IGT, including all subsidiaries, employed approximately 3,600 persons, including 600 in administrative positions, 300 in sales and 700 in engineering. Of the total employees, our North American operation accounted for 2,700; IGT-Australia, 300; IGT-UK, 400; and approximately 200 employees at other subsidiaries. The total number of employees increased in fiscal year 2000 by approximately 250 compared to the number of employees at October 2, 1999.

Government Regulation

General

The manufacture and distribution of gaming equipment and related gaming software is subject to federal, state, tribal, local and foreign regulation. While the regulatory requirements vary from jurisdiction to jurisdiction, the majority of these jurisdictions require licenses, permits, findings of suitability, documentation of qualification including evidence of financial stability and/or other required approvals for companies who manufacture and distribute gaming equipment, as well as the individual suitability of officers, directors, major stockholders and key employees. Laws of the various gaming regulatory agencies generally serve to protect the public and ensure that gaming related activity is conducted honestly, competitively, and free of corruption.

Various gaming regulatory agencies have issued licenses allowing IGT to manufacture and/or distribute its products and operate wide-area progressive systems. IGT and its key personnel have obtained or applied for all government licenses, permits, registrations, findings of suitability and approvals necessary allowing for the manufacture, distribution, and where permitted, operation of gaming machines in the jurisdictions where we do business. We have never been denied a gaming related license, nor have our licenses been suspended or revoked.

Nevada Regulation

The manufacture, sale and distribution of gaming devices in Nevada are subject to extensive state laws, regulations of the Nevada Gaming Commission and State Gaming Control Board (the "Nevada Commission"), and various county and municipal ordinances. These laws, regulations and ordinances primarily concern the responsibility, financial stability and

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character of gaming equipment manufacturers, distributors and operators, as well as persons financially interested or involved in gaming operations. The manufacture, distribution and operation of gaming devices require separate licenses. The laws, regulations and supervisory procedures of the Nevada Commission seek to (i) prevent unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity; (ii) establish and maintain responsible accounting practices and procedures, (iii) maintain effective control over the financial practices of licensees, including establishing minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Commission, (iv) prevent cheating and fraudulent practices, and (v) provide a source of state and local revenues through taxation and licensing fees. Changes in such laws, regulations and procedures could have an adverse effect on our operations.

A Nevada gaming licensee is subject to numerous restrictions. Licenses must be renewed periodically and licensing authorities have broad discretion with regard to such renewals. Licenses are not transferable. Each type of machine sold by the Company in Nevada must first be approved by the Nevada Commission, which may require subsequent machine modification. Substantially all material loans, leases, sales of securities and similar financing transactions must be reported to or approved by the Nevada Commission. Changes in legislation or in judicial or regulatory interpretations could occur which could adversely affect the Company.

A publicly traded corporation must be registered and found suitable to hold an interest in a corporate subsidiary that holds a gaming license. International Game Technology has been registered by the Nevada Commission as a publicly traded holding company and was permitted to acquire IGT as its wholly-owned subsidiary. As a registered holding company, it is required periodically to submit detailed financial and operating reports to such Commission and furnish any other information that the Commission may require. No person may become a stockholder of, or receive any percentage of profits from, a licensed subsidiary without first obtaining licenses and approvals from the Nevada Commission. Officers, directors and key employees of a licensed subsidiary and of the Company who are actively engaged in the administration or supervision of gaming must be found suitable.

No proceeds from any public sale of securities of a registered holding corporation may be used for gaming operations in Nevada or to acquire a gaming property without the prior approval of the Nevada Commission. The Company believes it has all required licenses to carry on its business in Nevada.

Officers, directors, and certain key employees of IGT who are actively and directly involved in gaming activities of the Company's licensed gaming subsidiary may be required to be licensed or found suitable. Officers, directors, and certain key employees of the Company's licensed gaming subsidiary must file applications with the Nevada Commission and may be required to be licensed or found suitable. Employees associated with gaming must obtain work permits, which are subject to immediate suspension under certain circumstances. In addition, anyone having a material relationship or involvement with the Company may be required to be found suitable or licensed, in which case those persons would be required to pay the costs and fees of the State Gaming Control Board (the "Control Board") in connection with the investigation. An application for licensure or finding of suitability may be denied for any cause deemed reasonable by the Nevada Commission. A finding of suitability is comparable to licensing and both require submission of detailed personal and financial information followed by a thorough investigation. Changes in licensed positions must be reported to the Nevada Commission. In addition to its authority to deny an application for a license or finding of suitability, the Nevada Commission has jurisdiction to disapprove a change in position by such officer, director, or key employee.

The Nevada Commission has the power to require the Company and its licensed gaming subsidiary to suspend or dismiss officers, directors or other key employees and to sever relationships with other persons who refuse to file appropriate applications or whom the authorities find unsuitable to act in such capacities. Determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada.

The Company and its licensed gaming subsidiary are required to submit detailed financial and operating reports to the Nevada Commission. If it were determined that gaming laws were violated by a licensee, the gaming licenses it holds could be limited, conditioned, suspended or revoked subject to compliance with certain statutory and regulatory procedures. In addition to the licensee, the Company and the persons involved could be subject to substantial fines for

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each separate violation of the gaming laws at the discretion of the Nevada Commission. In addition, a supervisor could be appointed by the Nevada Commission to operate the Company's gaming property and, under certain circumstances, earnings generated during the supervisor's appointment could be forfeited to the State of Nevada. The limitation, conditioning or suspension of any gaming license or the appointment of a supervisor could (and revocation of the gaming license would) materially and adversely affect the Company's operations.

The Nevada Commission may also require any beneficial holder of our voting securities, regardless of the number of shares owned, to file an application, be investigated, and be found suitable, in which case the applicant would be required to pay the costs and fees of the Control Board investigation. If the beneficial holder of voting securities who must be found suitable is a corporation, partnership, or trust, it must submit detailed business and financial information including a list of beneficial owners. Any person who acquires 5% or more of the Company's voting securities must report the acquisition to the Nevada Commission; any person who becomes a beneficial owner of 10% or more of our voting securities must apply for a finding of suitability within 30 days after the Chairman of the Nevada Control Board mails the written notice requiring such finding.

Under certain circumstances, an Institutional Investor, as such term is defined in the Nevada Regulations, which acquires more than 10%, but not more than 15%, of the Company's voting securities may apply to the Nevada Commission for a waiver of such finding of suitability requirements, provided the institutional investor holds the voting securities for investment purposes only. An institutional investor will not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the board of directors of the Company, any change in its corporate charter, bylaws, management, policies or operations of the Company, or any of its gaming affiliates, or any other action which the Nevada Commission finds to be inconsistent with holding the Company's voting securities for investment purposes only. Activities which are not deemed to be inconsistent with holding voting securities for investment purposes only include: (i) voting on all matters voted on by stockholders; (ii) making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and (iii) such other activities as the Nevada Commission may determine to be consistent with such investment intent.

The Nevada Commission has the power to investigate any debt or equity security holder of the Company. The Clark County Liquor and Gaming Licensing Board, which has jurisdiction over gaming in the Las Vegas area, may similarly require a finding of suitability for a security holder. The applicant stockholder is required to pay all costs of such investigation. The bylaws of the Company provide for the Company to pay such costs as to its officers, directors or employees.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Commission or Chairman of the Control Board may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. The Company is subject to disciplinary action, and possible loss of our approvals, if, after it receives notice that a person is unsuitable to be a stockholder or to have any other relationship with, the Company (i) pays that person any dividend or interest upon voting securities of the Company, (ii) allows that person to exercise, directly or indirectly, any voting right conferred through securities held by that person, (iii) gives remuneration in any form to that person, for services rendered or otherwise, or (iv) fails to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities for cash at fair market value. Additionally the Clark County authorities have taken the position that they have the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming license.

The Nevada Commission may, in its discretion, require the holder of any debt security of the Company to file applications, be investigated and be found suitable to own the debt security of the Company. If the Nevada Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Gaming Control Act (the "Nevada Act"), the

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Company can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Commission, it: (i) pays to the unsuitable person any dividend, interest, or any distribution whatsoever; (ii) recognizes any voting right by such unsuitable person in connection with such securities; (iii) pays the unsuitable person remuneration in any form; or (iv) makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

The Company is required to maintain a current stock ledger in Nevada, which may be examined by the Nevada Commission at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Commission. A failure to make such disclosure may be grounds for finding the record holder unsuitable. The Company is also required to render maximum assistance in determining the identity of the beneficial owner. The Nevada Commission has the power at any time to require the Company's stock certificates to bear a legend indicating that the securities are subject to the Nevada Act and the regulations of the Nevada Commission. To date, the Nevada Commission has not imposed such a requirement.

The Company may not make a public offering of its securities without the prior approval of the Nevada Commission if the securities or proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or retire or extend obligations incurred for such purposes. Such approval, if given, does not constitute a finding, recommendation, or approval by the Nevada Commission or the Nevada Control Board to the accuracy or adequacy of the prospectus or investment merits of the securities. Any representation to the contrary is unlawful. Changes in control of the Company through merger, consolidation, acquisition of assets or stock, management or consulting agreements or any form of takeover cannot occur without the prior investigation of the Control Board and approval of the Nevada Commission. Entities seeking to acquire control of the Company must satisfy the Nevada Board and Nevada Commission in a variety of stringent standards prior to assuming control of the Company. The Nevada Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction. The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and other corporate defense tactics that affect corporate gaming licensees in Nevada, and corporations whose stock is publicly traded that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to (i) assure the financial stability of corporate gaming operators and their affiliates; (ii) preserve the beneficial aspects of conducting business in the corporate form; and (iii) promote a neutral environment for the orderly governance of corporate affairs. Approvals are, in certain circumstances, required from the Nevada Commission before the Company can make exceptional repurchases of voting securities above the current market price thereof and before a corporate acquisition opposed by management can be consummated. Nevada's gaming laws and regulations also require prior approval by the Nevada Commission if the Company were to adopt a plan of recapitalization proposed by our Board of Directors in opposition to a tender offer made directly to its stockholders for the purpose of acquiring control of the Company.

Any person who is licensed, required to be licensed, registered, required to be registered, or is under common control with such persons (collectively, "Licensees"), and who proposes to become involved in a gaming venture outside of Nevada is required to deposit with the Control Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation by the Control Board of the licensee's participation in foreign gaming.

The revolving fund is subject to increase or decrease at the discretion of the Nevada Commission. Thereafter, Licensees are required to comply with certain reporting requirements imposed by the Nevada Act. A licensee is also subject to disciplinary action by the Nevada Commission if it knowingly violates any laws of the foreign jurisdiction pertaining to the foreign gaming operation, fails to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engages in activities that are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employs a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the grounds of personal unsuitability.

Item 1. Business

International Regulation

Certain foreign countries permit the importation, sale and operation of gaming equipment in casino and non-casino environments. Some countries prohibit or restrict the payout feature of the traditional slot machine or limit the operation and the number of slot machines to a controlled number of casinos or casino-like locations. Each gaming machine must comply with the individual country's regulations. Certain jurisdictions require the licensing of gaming machine operators and manufacturers.

We manufacture and supply gaming equipment to various international markets including Australia, Europe, Japan, Latin America, the Middle East, New Zealand, South Africa, and the United Kingdom. We have obtained the required licenses to manufacture and distribute our products in the various foreign jurisdictions where we do business.

Federal Registration

The Federal Gambling Devices Act of 1962 (the Act) makes it unlawful for a person to manufacture, transport, or receive gaming machines, gaming devices or components across interstate lines unless that person has first registered with the Attorney General of the US Department of Justice. In addition, gambling device identification and recordkeeping requirements are imposed by the Act. Violation of the Act may result in seizure and forfeiture of the equipment, as well as other penalties. Subsidiaries of International Game Technology involved in the manufacture and transportation of gaming devices are required to register annually. We have complied with the registration requirements of the Act.

Native American Gaming Regulation

Gaming on Native American lands is governed by federal law, tribal-state compacts, and tribal gaming regulations. The Indian Gaming Regulatory Act of 1988 (IGRA) provides the framework for federal and state control over all gaming on Native American lands and is administered by the National Indian Gaming Commission (the NIGC) and the Secretary of the US Department of the Interior. IGRA requires that the tribe and the state enter into a written agreement, a tribal-state compact, that governs the terms of the gaming activities. Tribal-state compacts vary from state-to-state and in many cases require equipment manufacturers and/or distributors to meet ongoing registration and licensing requirements. In addition, tribal gaming commissions have been established by many Native American tribes to regulate gaming related activity on Indian lands. IGT manufactures and supplies gaming equipment to Native American tribes who have negotiated compacts with their state and have received federal approval.

In March 2000, the state of California approved a constitutional amendment that permitted Native American casino-style gaming within the state. As of September 30, 2000, we are licensed to sell gaming machines and components to Native American casinos in 17 states.

Item 2. Properties

| Location | Square Footage | Owned/ Leased | Use |
|--------------------------|----------------|------------------|---|
| Reno, Nevada | 1,000,000 | Owned | Manufacturing, warehousing, sales, administration |
| Sydney, Australia | 157,000 | Leased | Assembly, warehousing, sales, administration |
| Las Vegas, Nevada | 128,500 | Leased | Warehousing, sales, administration |
| Ashton, UK | 122,300 | Owned | Manufacturing |
| Rapid City, South Dakota | 94,000 | Owned | Warehousing, sales, administration |
| Ashton, UK | 17,200 | Leased | Manufacturing |
| Wellington, New Zealand | 12,000 | Owned | Warehousing, sales, administration |
| Other domestic | 184,800 | Leased | Sales and administration |
| Other international | 174,800 | Leased | Warehousing, sales, administration |

Item 2. Properties

IGT also leases two buildings in Reno, Nevada consisting of approximately 179,000 square feet. We vacated these buildings during 1996 and 1997 upon completion of our South Meadows facility. Our original lease on these facilities expires in 2001. This expiration date was extended to 2003 for 91,500 square feet that we sublease to third parties.

Item 3. Legal Proceedings

IGT has been named in and has brought lawsuits in the normal course of business. Management does not expect the outcome of these suits to have a material adverse effect on our financial position or results of future operations. For a description of certain of these matters, see Note 14 of Notes to Consolidated Financial Statements, which is incorporated by reference in response to this item.

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

Not applicable.

Part II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol "IGT." The following table sets forth for the periods presented the high and low sales prices of the common stock as traded on the NYSE:

| Fiscal 2000 | High | Low |
|--------------------|-------------|------------|
| First Quarter | \$ 20.6250 | \$ 17.5625 |
| Second Quarter | 22.4375 | 17.4375 |
| Third Quarter | 28.5625 | 20.2500 |
| Fourth Quarter | 34.5000 | 26.8750 |
| Fiscal 1999 | High | Low |
| First Quarter | \$ 24.5000 | \$ 16.5000 |
| Second Quarter | 23.4375 | 14.3750 |
| Third Quarter | 19.5000 | 14.6875 |
| Fourth Quarter | 19.2500 | 16.1875 |

As of November 24, 2000, there were approximately 3,699 record holders of IGT's common stock. The closing price of the common stock was \$41.25 on that date.

We declared no quarterly dividend in fiscal 2000 and one quarterly dividend of \$0.03 per share in fiscal 1999. During fiscal 1999, IGT's Board of Directors voted to discontinue payment of cash dividends and redirect the funds toward the stock repurchase plan or other corporate purposes.

IGT's transfer agent and registrar is The Bank of New York, P.O. Box 11258, Church Street Station, New York, NY 10286, (800) 524-4458.

Item 6. Selected Financial Data

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

| | September 30, 2000 | October 2, 1999 | September 30, | | |
|--|-----------------------|--------------------|---------------|-------------|-------------|
| | | | 1998 | 1997 | 1996 |
| <i>(Amounts in thousands, except per share data)</i> | | | | | |
| Selected Income Statement Data | | | | | |
| Total revenues | \$ 898,404 | \$ 854,106 | \$ 758,942 | \$ 730,799 | \$ 733,452 |
| Earnings of unconsolidated affiliates | \$ 105,991 | \$ 75,556 | \$ 65,181 | \$ 13,171 | \$ - |
| Income from operations | \$ 267,528 | \$ 116,318 | \$ 218,877 | \$ 191,437 | \$ 169,833 |
| Income before extraordinary item | \$ 156,792 | \$ 65,312 | \$ 152,446 | \$ 137,247 | \$ 118,017 |
| Net income | \$ 156,792 | \$ 62,058 | \$ 152,446 | \$ 137,247 | \$ 118,017 |
| Basic earnings per share | | | | | |
| Income before extraordinary item | \$ 2.05 | \$ 0.65 | \$ 1.35 | \$ 1.14 | \$ 0.93 |
| Net income | \$ 2.05 | \$ 0.62 | \$ 1.35 | \$ 1.14 | \$ 0.93 |
| Diluted earnings per share | | | | | |
| Income before extraordinary item | \$ 2.00 | \$ 0.65 | \$ 1.33 | \$ 1.13 | \$ 0.93 |
| Net income | \$ 2.00 | \$ 0.62 | \$ 1.33 | \$ 1.13 | \$ 0.93 |
| Cash dividends declared per common share | | | | | |
| | \$ - | \$ 0.03 | \$ 0.12 | \$ 0.12 | \$ 0.12 |
| Weighted average common shares outstanding | | | | | |
| | 76,586 | 99,461 | 113,064 | 120,715 | 126,555 |
| Weighted average common and potential shares outstanding | | | | | |
| | 78,229 | 100,238 | 114,703 | 121,829 | 127,412 |
| Selected Balance Sheet Data | | | | | |
| Working capital | \$ 555,233 | \$ 739,753 | \$ 470,003 | \$ 406,958 | \$ 488,150 |
| Total assets | \$1,623,716 | \$1,765,060 | \$1,543,628 | \$1,215,052 | \$1,154,187 |
| Long-term notes payable and capital lease obligations | | | | | |
| | \$ 991,507 | \$ 990,436 | \$ 322,510 | \$ 140,713 | \$ 107,155 |
| Stockholders' equity | \$ 96,585 | \$ 242,218 | \$ 541,276 | \$ 519,847 | \$ 623,200 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

We operate principally in two lines of business: the development, manufacturing, marketing and distribution of gaming products, which we refer to as "Product Sales"; and the development, marketing and operation of wide-area progressive systems and gaming equipment leasing, which we refer to as "Proprietary Gaming". This segment includes our wholly owned gaming operations and our unconsolidated joint venture activities reported as earnings of unconsolidated affiliates.

Certain amounts in prior years comparative consolidated financial statements have been reclassified to be consistent with the presentation used in the current fiscal periods. In this report and in each of our reports, as amended, beginning with this Report on Form 10-K for the year ended September 30, 2000, we have reclassified our presentation of earnings from unconsolidated joint venture operations. We previously reported earnings from unconsolidated joint ventures, net of expenses, as a component of gaming operations revenues. In each of our reports as amended, beginning with this Report on Form 10-K for the year ended September 30, 2000 and going forward, we will report the net results of our unconsolidated joint ventures as a separate component of operating income on our income statement under a separate caption titled Earnings of Unconsolidated Affiliates. This reclassification has no impact on operating income, net income, or earnings per share as reflected on our consolidated statements of income and no impact on our consolidated balance sheets and statements of cash flows.

Fiscal 2000 Compared to Fiscal 1999

Fiscal 2000 net income, excluding one-time items discussed below, totaled \$138.4 million or \$1.77 per diluted share compared to \$135.7 million or \$1.35 per diluted share for fiscal 1999. Both fiscal years included several one-time items that affected net income. Current year net income of \$156.8 million or \$2.00 per diluted share included the effects of the following one-time events:

- gain of \$27.0 million (\$17.3 million net of tax) or \$0.22 per diluted share from a legal settlement;
- loss of \$1.4 million (\$900,000 net of tax) or \$0.01 per diluted share on the sale of the gaming systems business unit previously purchased as part of the Olympic Gaming acquisition; and
- gain of \$3.2 million (\$2.0 million net of tax) or \$0.02 per diluted share on the sale of the Japanese subsidiary of Barcrest.

Prior year net income of \$62.1 million or \$0.62 per diluted share included the following one-time items:

- impairment and restructuring charges of \$98.1 million (\$70.4 million net of tax) or \$0.70 per diluted share related to operations in Australia and Brazil; and
- an extraordinary loss on early redemption of debt of \$4.9 million (\$3.3 million net of tax) or \$0.03 per diluted share.

The legal settlement gain, received in the first quarter of fiscal 2000, resulted from the resolution of legal actions between IGT and WMS related to infringement claims involving our Telnaes patent for virtual reel technology. See Note 14 of Notes to Consolidated Financial Statements.

In the fourth quarter of fiscal 1999, we determined that the total unamortized balance of intangible assets related to the Olympic acquisition was fully impaired. We recorded an impairment charge of \$86.8 million. See Note 8 of Notes to Consolidated Financial Statements for a discussion of the reasons for the impairment charge. After difficulties experienced with the acquisition of Olympic, we initiated a significant restructuring plan in late fiscal 1999 in an effort to return IGT-Australia to a profitable operation. The changes implemented in fiscal 2000 included narrowing the product lines, downsizing the sales, service, and engineering departments, and transferring manufacturing to Reno. In the fourth quarter of fiscal 1999 we recognized restructuring costs of \$6.0 million related to this plan. An additional \$1.9 million in restructuring costs were incurred during fiscal 2000 related to the elimination of certain administrative and manufacturing positions in Australia. Although our Australian subsidiary recorded an operating loss for the year, the financial results continued to get better each quarter culminating with a profit recorded in the fourth quarter, the first profitable quarter in several years. While we have taken steps to address problems we experienced in Australia, we continue to face regulatory, and competitive challenges in this market.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

In the fourth quarter of 1999, the Brazilian government rescinded the law allowing gaming devices in bingo halls. Based on our assessment of the recoverability of our inventories and receivables in Brazil at October 2, 1999, we recorded impairment charges of \$5.3 million. During fiscal 2000, we received payment of \$1.9 million for receivables and inventories previously considered fully impaired.

In July 2000, in a move to eliminate duplication within our operations in Japan, we sold Barcrest KK, the Japanese subsidiary of Barcrest, for a gain of \$3.2 million (\$2.0 million net of tax). The net cash proceeds from the sale were \$9.8 million and the net assets disposed of were \$6.6 million. The purchaser is a Japanese company engaged in the manufacture, development, and sale of pachinko and pachisuro slot machines. See Note 2 of Notes to Consolidated Financial Statements.

Operating Income

Fiscal 2000 operating income, before impairment and restructuring charges, grew 25% to \$267.5 million or 30% of revenues compared to \$214.4 million or 25% of revenues last year. This improvement was due to the increased gross profit margins in both product sales and gaming operations and gains in the earnings of our unconsolidated affiliates, partially offset by higher operating expenses, as discussed below.

Revenues, Gross Profit Margins and Earnings of Unconsolidated Affiliates

Total revenues for fiscal 2000 improved to \$898.4 million over fiscal 1999 revenues of \$854.1 million, reflecting a 5% increase in product sales and a 6% increase in gaming operations. This improvement was due to continued growth in our domestic revenues, which increased by 11% over the prior year. Gross profit on total revenues for fiscal 2000 increased by 15% to \$397.8 million compared to \$345.7 million for fiscal 1999. This improvement was attributable to growth in profitability year-over-year for both product sales and gaming operations.

Worldwide, IGT shipped 107,000 gaming machines for product sales of \$603.4 million in fiscal 2000 versus 116,000 units for \$576.6 million in the prior fiscal year. Domestic shipments increased to 44,700 units for the current year from 41,100 units in fiscal 1999, predominantly due to sales of approximately 5,000 units into the new California Native American market. Current year domestic shipments to new casinos also included Suncoast (87% market share) in Nevada, Hollywood Casino (91% market share) in Louisiana, Belterra Resort (87% market share) in Indiana, and Greektown Casino (67% market share) in Michigan. Although fiscal 2000 offered fewer major casino openings than fiscal 1999, domestic replacement sales were up 52% for the fourth quarter and 10% for the year compared to the same prior year periods, led by strong demand for our newer games.

International shipments, comprising 58% of total units in fiscal 2000, declined 17% to 62,300 units compared to 74,900 units in fiscal 1999. This decline reflected a slower year in Japan and Latin America, partially offset by increased unit sales in Europe, Africa, and the United Kingdom. Unit sales in Australia were virtually flat year over year, but improved 84% in the fourth quarter of fiscal 2000 over the prior year quarter, reflecting improvement from the restructuring plan implemented during fiscal 2000.

The gross profit margin on product sales improved to 38% in the current fiscal year compared to 37% in the prior year. Margins were positively impacted by a higher percentage of domestic sales in the overall mix, offset by additional costs associated with sourcing more sophisticated electronic components and the rapid production ramp-up in the latter half of the year.

Gaming operations revenue, for the year ended September 30, 2000 improved to \$295.0 million compared to \$277.5 million in fiscal 1999. The gross profit performance in gaming operations climbed to \$170.2 million or 58% for fiscal 2000 from \$135.0 million or 49% in fiscal 1999. The inclusion of Sodak's gaming operations revenues and the impact of higher interest rates, which lowered the cost of funding jackpot payments were the most significant contributors to this margin growth.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Earnings of unconsolidated affiliates, a separate component of operating income reported net of expenses for accounting purposes, boosted by the continued popularity of the Wheel of *Fortune*® games, grew 40% to \$106.0 million in fiscal 2000 compared to \$75.6 million in fiscal 1999.

Performance of our proprietary gaming segment, which includes our wholly-owned gaming operations and our unconsolidated joint venture activities, accelerated markedly in fiscal 2000 due to significant placements of our newest and most popular game themes. The installed base of our *MegaJackpot*™ machines, including placement under joint ventures, at September 30, 2000 experienced unprecedented year over year growth of 27% to 19,200 games from 15,100 machines at the end of fiscal 1999. Our joint venture activities contributed significantly to this growth, led by the installation of 4,300 video and 800 spinning reel *Wheel of Fortune*® games during the year.

Also contributing to the overall growth in proprietary gaming were the successes of *Multi-Hand Poker*™, *Party Time*™, *Elvis*® and *The Addams Family*™ games. Fiscal 2000 brought the installation of new feature rich *MegaJackpot*™ games with second event bonus, incorporating popular themes such as *The Addams Family*™ and *Jeopardy!*® Video. In recognition that all games have a finite life cycle, IGT systematically replaces legacy systems experiencing declining play levels with new systems incorporating enhanced entertainment value and improved player appeal. Of the current installed base, approximately 16,300 units are new platform, higher performing games. During fiscal 2000, we discontinued 19 *MegaJackpots*™ systems in eight jurisdictions. As of September 30, 2000, our *MegaJackpots*™ games operated in 17 domestic jurisdictions and one international location versus 11 domestic jurisdictions and one international location at the end of fiscal 1999. IGT continues to pursue additional markets for our *MegaJackpots*™ systems of linked progressive games.

Operating Expenses

Fiscal 2000 operating expenses, excluding impairment and restructuring charges, totaled \$236.3 million or 26% of total revenue compared to \$206.8 million or 24% in fiscal 1999. The \$20.8 million increase in selling, general and administrative expenses reflects the inclusion of Sodak's operating expenses and increased incentives as the result of improved operating results. Depreciation and amortization expense, not included in cost of sales, declined 13% from the prior year to \$20.9 million, primarily due to the write-off of intangible assets in Australia in the fourth quarter of fiscal 1999. The addition of goodwill and fixed assets relating to the acquisition of Sodak partially offset this decline.

Research and development expenses increased \$9.7 million to \$55.2 million for the current year, primarily as a result of engineering expenses related to the unprecedented rate of new game development. Bad debt expense increased \$2.0 million over fiscal 1999 primarily due to fluctuations in sales volumes.

Other Income and Expense

Other expense, net for the current year, totaled \$22.5 million versus \$14.9 million in the prior year. Increased interest expense from our outstanding \$1.0 billion Senior Notes issued in May 1999 was partially offset by the \$27.0 million legal settlement received. Operation of our *MegaJackpots*™ 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.

Our worldwide tax rate increased to 36% in fiscal 2000 from 35.6% in fiscal 1999. We expect our tax rate for fiscal 2001 to fluctuate between 37% and 38%.

Business Segments Operating Profit (See Note 20 of Notes to Consolidated Financial Statements)

We operate principally in two lines of business, product sales and proprietary gaming. Gaming operations and our unconsolidated joint venture activities, reported as earnings of unconsolidated affiliates, are included in the proprietary

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

gaming segment. IGT's operating profit by business segment reflects an appropriate allocation of selling, general and administrative expenses, research and development expenses, interest income, and interest expense.

Product sales operating profit, before impairment and restructuring charges, for the year ended September 30, 2000 improved to \$95.5 million or 16% of related revenues compared to \$95.6 million or 17% in fiscal 1999. Including the one-time charges for impairment and restructuring of \$98.1 million, product sales operating loss for the year ended October 2, 1999 was \$2.5 million. This fluctuation reflects increased sales volume, offset by increased research and development costs, and increased interest expense allocated to the product sales segment from our \$1.0 billion Senior Notes proceeds used to fund the acquisition of Sodak in September 1999.

In fiscal 2000, operating profit for the proprietary gaming segment totaled \$190.9 million, an increase of \$46.5 million or 32% compared to the prior year. This improvement resulted from the growth of the installed base and excellent player acceptance of our new proprietary systems games, the continued popularity of the joint venture *Wheel of Fortune*® games, higher interest rates which lowered the cost of funding jackpot payments, and the inclusion of gaming operations revenue from Sodak.

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) 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 in the fourth quarter of fiscal 1999 of \$98.1 million consisted primarily of the write-off of intangible assets of \$86.8 million related to IGT-Australia's prior acquisition of Olympic. Also in the fourth quarter of fiscal 1999, we determined the total unamortized balance of intangible assets acquired from Olympic was fully impaired. See Note 8 of Notes to Consolidated Financial Statements for a discussion of the reasons for the impairment charge. In an effort to return IGT-Australia to a profitable operation, we initiated a significant restructuring plan in late fiscal 1999 which included 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 also recorded impairment charges of \$5.3 million in fiscal 1999, relating to changes in our recoverability assessment of inventory and receivables in Brazil. In fiscal 1999 the government in Brazil rescinded the law allowing gaming devices in bingo halls throughout this market.

Operating Income

Fiscal 1999 operating income, before impairment and restructuring charges, totaled \$214.4 million or 25% of revenues compared to \$218.9 million or 29% in fiscal 1998. This decrease was primarily the result of lower gross margins in domestic product sales, as discussed below.

Revenues, Cost of Sales and Earnings of Unconsolidated Affiliates

Total revenues for fiscal 1999 improved to \$854.1 million over fiscal 1998 revenues of \$758.9 million, reflecting a 21% increase in product sales, offset by a decrease of 2% in gaming operations. Gross profit on total revenues for fiscal 1999 increased by 8% to \$345.7 million compared to \$321.1 million for fiscal 1998. This improvement was attributable to growth in profitability year-over-year for both product sales and gaming operations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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. Fiscal 1999 shipments to new Las Vegas properties included Park Place's Paris Resort, The Resort at Summerlin, the Mandalay Bay and the Venetian Resort. Also contributing to the fiscal 1999 improvement were shipments of 3,000 machines to the Ontario Lottery Commission and 1,800 machines to new casinos in Detroit, Michigan. Domestic revenues for fiscal 1999 also benefited from increased demand in the Native American market. In June 1999, we became a licensed manufacturer for Native American venues in Washington. Fiscal 1999 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 in fiscal 1999 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*®. Fiscal 1999 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 in fiscal 1998. The lack of anticipated growth in the fiscal 1999 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 fiscal 1999 compared to 41% in fiscal 1998. This fluctuation is the result of an increase in the mix of new domestic product lines, including the *Game King*® and *Vision Series*® platforms, 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 \$277.5 million compared to \$281.9 million in fiscal 1998. The gross margin profit on gaming operations revenues was 49% in fiscal 1999 and 44% in fiscal 1998. The decrease in gaming operations revenues was favorably offset by the lower cost of funding jackpot payments due to higher average interest rates.

Earnings from unconsolidated joint ventures, reported net of expenses, grew 16% to \$75.6 million in fiscal 1999 compared to \$65.2 million in fiscal 1998.

The total installed base of our proprietary gaming machines 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. During fiscal 1999 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 the *MegaJackpot*[™] system formats in Atlantic City. The introduction of these new systems in various jurisdictions offset the decrease in revenue of other maturing systems.

Operating Expenses

Fiscal 1999 operating expenses totaled \$304.9 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 36% in fiscal 1999 compared to 22% 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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Depreciation and amortization expenses totaled \$24.0 million in the fiscal 1999 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 in fiscal 1999 compared to the prior year due to the inclusion of a full year of Barcrest 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 fiscal 1999 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 fiscal 1998 totaled \$15.7 million which included a gain on the sale of the IGT-Australia manufacturing facility of \$10.4 million. Operation of our *MegaJackpots*[™] 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 20 of Notes to Consolidated Financial Statements)

We operate principally in two lines of business, product sales and proprietary gaming. Gaming operations and our unconsolidated joint venture activities, reported as earnings of unconsolidated affiliates, are included in the proprietary gaming segment. Product sales and proprietary gaming operating profit reflects an allocation of selling, general, administrative and engineering expenses to each of these business segments.

Product sales operating loss was \$2.5 million for the year ended October 2, 1999, including the one-time charges for impairment and restructuring of \$98.1 million. Product sales operating profit before these charges totaled \$95.6 million compared to \$121.2 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 proprietary gaming profit increased \$10.4 million or 8% compared to fiscal 1998. This improvement resulted primarily from the continued popularity of the joint venture *Wheel of Fortune* ® games and higher average interest rates, which resulted in lower costs of funding jackpot payments.

Foreign Operations

Approximately 27% of our total revenues in fiscal 2000, 31% in fiscal 1999, and 23% 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

Capital Resources

IGT's sources of capital include, but are not limited to, cash flows from operations, the issuance of public or private placement debt, bank borrowings, and the issuance of equity securities. We believe that our available short-term and long-term capital resources are sufficient to fund our capital expenditure and operating capital requirements, scheduled debt payments, interest and income tax obligations, strategic investments, acquisitions, and share repurchases. Our sources of capital afford us the financial flexibility to target acquisition of businesses that offer opportunities to implement our operating strategies, increase our rates of return, and improve shareholder value.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Credit Facilities and Indebtedness

Our domestic and foreign borrowing facilities totaled \$273.0 million at September 30, 2000. Of this amount, \$4.6 million was drawn, \$2.8 million was reserved for letters of credit and the remaining \$265.6 million was available for future borrowings. 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 September 30, 2000, we were in compliance with all applicable covenants.

In May 1999, we 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 Senior Notes for identical registered notes. A portion of the proceeds was used to redeem previously outstanding 7.84% Senior Notes due 2004, which resulted in a prepayment penalty of \$3.3 million, net of tax. Additionally, we repaid outstanding borrowings under both our US and Australian credit facilities. The remaining net proceeds from the offering were used to fund our acquisition of Sodak, working capital, and share repurchases.

The issuance of our \$1.0 billion of Senior Notes 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.

Summary of Cash Activities

IGT's principal sources of cash consisted of \$128.8 million derived from operations and \$43.0 million in proceeds from the October 1999 sale of the Miss Marquette riverboat held for sale as part of the Sodak acquisition. Our primary use of cash was share repurchases of \$318.5 million.

Our proprietary *MegaJackpots*[™] 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 \$23.2 million in the current year and \$21.3 million in fiscal 1999. The net cash provided by these activities for fiscal 1998 was \$36.3 million. Fluctuations in net cash flows from systems represent differences between the growth in liabilities for jackpots and the actual payments to the winners during the period, based on the timing of the jackpot cycles and the volume of play across all of our *MegaJackpots*[™] systems.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating Activities: Cash flows from operating activities in fiscal 2000 resulted from the favorable operating performance discussed earlier. Fiscal 1999 operating cash flow 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 allowing jackpot winners to receive the discounted value of progressive jackpots won in lieu of annual installments.

Investing Activities: Cash provided by investing activities in the current year was primarily due to proceeds from the October 1999 sale of the Miss Marquette riverboat held for sale as part of the Sodak acquisition. The primary use of investing cash in fiscal 1999 related to our acquisition of businesses. See Note 2 of Notes to Consolidated Financial Statements. Use of cash from investing activities also included purchases of property, plant, and equipment totaling \$18.5 million in fiscal 2000, \$17.8 million in fiscal 1999, and \$16.8 million in fiscal 1998.

Financing Activities: The primary use of cash in financing activities in the current year related to treasury stock purchases. Net borrowings in the prior year periods were used primarily to fund business acquisitions, stock repurchases, and working capital.

Stock Repurchase Plan

A stock repurchase plan was originally authorized by our Board of Directors in October 1990. As of November 25, 2000, the remaining share repurchase authorization, as amended, totaled 10.8 million additional shares. During fiscal 2000, we repurchased 15.7 million shares for an aggregate purchase price of \$318.5 million, including 11.0 million shares repurchased pursuant to an issuer-tender offer at \$21 per share. 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.

Recently Issued Accounting Standards

On June 30, 1998, the Financial Accounting Standards Board 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.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 clarifies existing accounting principles related to revenue recognition in financial statements. SAB 101 is effective for the fourth quarter of our fiscal year 2001. We believe that the adoption of this statement will not have a material impact on our financial condition or results of operations.

Reclassifications

Certain amounts in the prior years' comparative consolidated financial statements have been reclassified to be consistent with the presentation used in the current fiscal year. In this report, we have reclassified our presentation of earnings from unconsolidated joint venture operations. We previously reported earnings from unconsolidated joint ventures, net of expenses, as a component of gaming operations revenues. Unless otherwise noted, revenues in this report exclude revenues, net of expenses, from our unconsolidated joint ventures. In this report and going forward, we will report the net results of our unconsolidated joint ventures as a separate component of operating income on our income statement under a separate caption titled Earnings of Unconsolidated Affiliates. This reclassification has no impact on operating income, net income, or earnings per share as reflected on our consolidated statements of income and no impact on our consolidated balance sheets and statements of cash flows.

Impact of Inflation

Inflation has not had a significant effect on IGT's operations during the last three fiscal years.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Euro Currency Conversions

On January 1, 1999, 11 of 15 member countries of the European Union fixed conversion rates between their existing currencies and one common currency – the “euro”. Conversion to the euro eliminated currency exchange rate risk between the member countries. The euro trades on currency exchanges and may be used in business transactions. Beginning in January 2002, new euro-denominated bills and coins will be issued and the former currencies will be withdrawn from circulation.

Our operating subsidiaries effected by the euro conversion have established plans to address the issues raised by the euro currency conversion. These issues include: the need to adapt financial systems and business processes; changes required to equipment, such as coin validators and note acceptors, to accommodate euro-denominated transactions in our current products; and the impact of one common currency on pricing. We do not expect material system and equipment conversion costs related exclusively to the euro. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects that one common currency will have on pricing and the resulting impact, if any, on our financial condition or results of operations.

Year 2000

IGT's Year 2000 strategic plan identified initiatives necessary to minimize failures of our electronic systems to process date sensitive information in and beyond the year 2000. Necessary modifications and replacements of our critical systems were completed timely. To date we have not experienced any significant failures of our electronic systems related to year 2000 processing issues. The total cost to accomplish our year 2000 plan was \$2.7 million, of which approximately \$2.2 million was capitalized for the replacement of non-compliant equipment and software. We continue to monitor systems performance to assure compliance.

Item 7a. Quantitative and Qualitative Factors about Market Risk

Market Risk

Under established procedures and controls, we enter into contractual arrangements or derivatives, in the ordinary course of business, to hedge our exposure to foreign exchange rate and interest rate risks. The counterparties to these contractual arrangements are major financial institutions and we believe that credit loss in the event of nonperformance is remote.

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 September 30, 2000, we had net foreign currency exposure of \$58.0 million hedged with \$63.5 million in currency forward contracts. At October 2, 1999, we had net foreign currency exposure of \$41.7 million, of which \$38.8 million 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 foreign exchange position, a ten percent adverse change in foreign exchange rates upon which these foreign exchange contracts are based would result in exchange gains and losses. In all material aspects, these exchange gains and losses would be fully offset by exchange gains and losses on the underlying net monetary exposures for which the contracts are designated as hedges. We do not expect material exchange rate gains and losses from unhedged foreign currency exposures.

As currency exchange rates change, translation of the income statements of our 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.

Item 7a. Quantitative and Qualitative Factors about Market Risk

Changes in the currency exchange rates that would have the largest impact on translating our international operating results include the Australian dollar, the 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 bank lending rates and the cost of US government securities, both of which are used to fund liabilities to jackpot winners. We record expense for future jackpots based on these rates which are impacted by market interest rates and other economic conditions. Therefore, the gross profit on our proprietary gaming segment decreases when interest rates decline. We estimated that a 10% decline in interest rates would impact gaming operations gross profit by \$2.3 million in the current year, \$2.2 million in fiscal 1999, and \$3.3 million in fiscal 1998. We also estimate that a 10% decline in interest rates would impact earnings of unconsolidated affiliates by \$1.6 million in fiscal 2000, \$1.2 million in fiscal 1999, and \$1.0 million in fiscal 1998. IGT currently does not manage this exposure with derivative financial instruments.

Our outstanding Senior Notes carry interest at fixed rates. If interest rates increased by 10%, then the fair market value of these notes would decrease approximately \$40.1 million at September 30, 2000 and \$45.0 million at October 2, 1999.

Item 8. Consolidated Financial Statements and Supplementary Data

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Independent Auditors' Report

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 September 30, 2000 and October 2, 1999, and the related consolidated statements of income, cash flows and changes in stockholders' equity for each of the three years in the period ended September 30, 2000. Our audits also included the consolidated financial statement schedule listed in the Index at Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 September 30, 2000 and October 2, 1999, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Reno, Nevada
November 6, 2000

Consolidated Statements of Income

| | Years Ended | | |
|---|-----------------------|--------------------|-----------------------|
| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
| <i>(Amounts in thousands except per share amounts)</i> | | | |
| Revenues | | | |
| Product sales | \$ 603,381 | \$ 576,598 | \$ 477,024 |
| Gaming operations | <u>295,023</u> | <u>277,508</u> | <u>281,918</u> |
| Total revenues | <u>898,404</u> | <u>854,106</u> | <u>758,942</u> |
| Costs and Expenses | | | |
| Cost of product sales | 375,750 | 365,948 | 279,337 |
| Cost of gaming operations | 124,806 | 142,497 | 158,528 |
| Selling, general and administrative | 150,051 | 129,211 | 105,945 |
| Depreciation and amortization | 20,897 | 23,955 | 18,635 |
| Research and development | 55,204 | 45,462 | 38,066 |
| Provision for bad debts | 10,153 | 8,153 | 4,735 |
| Impairment of assets and restructuring charges | <u>6</u> | <u>98,118</u> | <u>—</u> |
| Total costs and expenses | <u>736,867</u> | <u>813,344</u> | <u>605,246</u> |
| Earnings of Unconsolidated Affiliates | <u>105,991</u> | <u>75,556</u> | <u>65,181</u> |
| Income from Operations | <u>267,528</u> | <u>116,318</u> | <u>218,877</u> |
| Other Income (Expense) | | | |
| Interest income | 50,977 | 55,525 | 45,346 |
| Interest expense | (102,170) | (72,764) | (41,049) |
| Gain on investments | 4,553 | 5,438 | 1,031 |
| Gain (loss) on the sale of assets | (917) | (562) | 10,115 |
| Other | <u>25,016</u> | <u>(2,562)</u> | <u>212</u> |
| Other income (expense), net | <u>(22,541)</u> | <u>(14,925)</u> | <u>15,655</u> |
| Income Before Income Taxes and Extraordinary Item | 244,987 | 101,393 | 234,532 |
| Provision for Income Taxes | <u>88,195</u> | <u>36,081</u> | <u>82,086</u> |
| Income Before Extraordinary Item | 156,792 | 65,312 | 152,446 |
| Extraordinary Loss on Early Redemption of Debt, Net of Income Tax Benefit of \$1,640 | <u>—</u> | <u>(3,254)</u> | <u>—</u> |
| Net Income | <u>\$ 156,792</u> | <u>\$ 62,058</u> | <u>\$ 152,446</u> |
| Basic Earnings Per Share | | | |
| Income before extraordinary item | \$ 2.05 | \$ 0.65 | \$ 1.35 |
| Extraordinary loss | <u>—</u> | <u>(0.03)</u> | <u>—</u> |
| Net income | <u>\$ 2.05</u> | <u>\$ 0.62</u> | <u>\$ 1.35</u> |
| Diluted Earnings Per Share | | | |
| Income before extraordinary item | \$ 2.00 | \$ 0.65 | \$ 1.33 |
| Extraordinary loss | <u>—</u> | <u>(0.03)</u> | <u>—</u> |
| Net income | <u>\$ 2.00</u> | <u>\$ 0.62</u> | <u>\$ 1.33</u> |
| Weighted Average Common Shares Outstanding | 76,586 | 99,461 | 113,064 |
| Weighted Average Common and Potential Shares Outstanding | 78,229 | 100,238 | 114,703 |

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

Consolidated Balance Sheets

| | September 30, 2000 | October 2, 1999 |
|---|-----------------------|--------------------|
| <i>(Dollars in thousands)</i> | | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 244,907 | \$ 426,343 |
| Investment securities, at market value | 21,473 | 18,546 |
| Accounts receivable, net of allowances for doubtful accounts of \$13,831 and \$8,904 | 219,948 | 193,479 |
| Current maturities of long-term notes and contracts receivable, net of allowances | 76,320 | 74,987 |
| Inventories, net of allowances for obsolescence of \$24,304 and \$23,901: | | |
| Raw materials | 98,081 | 60,616 |
| Work-in-process | 4,593 | 4,902 |
| Finished goods | 44,315 | 51,094 |
| Total inventories | <u>146,989</u> | <u>116,612</u> |
| Investments to fund liabilities to jackpot winners | 27,939 | 27,702 |
| Deferred income taxes | 29,086 | 23,977 |
| Assets held for sale | - | 42,292 |
| Prepaid expenses and other | <u>47,564</u> | <u>51,302</u> |
| Total Current Assets | <u>814,226</u> | <u>975,240</u> |
| Long-term notes and contracts receivable, net of allowances and current maturities | <u>76,888</u> | <u>60,870</u> |
| Property, plant and equipment, at cost | | |
| Land | 19,889 | 19,938 |
| Buildings | 75,891 | 76,050 |
| Gaming operations equipment | 87,918 | 87,499 |
| Manufacturing machinery and equipment | 121,512 | 114,912 |
| Leasehold improvements | <u>4,996</u> | <u>5,361</u> |
| Total | 310,206 | 303,760 |
| Less accumulated depreciation and amortization | <u>(143,297)</u> | <u>(121,644)</u> |
| Property, plant and equipment, net | <u>166,909</u> | <u>182,116</u> |
| Investments to fund liabilities to jackpot winners | 229,726 | 235,230 |
| Deferred income taxes | 97,670 | 89,474 |
| Intangible assets, net | 143,738 | 152,036 |
| Other assets | <u>94,559</u> | <u>70,094</u> |
| Total Assets | <u>\$1,623,716</u> | <u>\$1,765,060</u> |

Consolidated Balance Sheets

| | September 30, 2000 | October 2, 1999 |
|---|-----------------------|--------------------|
| <i>(Dollars in thousands)</i> | | |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Current maturities of long-term notes payable | \$ 4,621 | \$ 3,278 |
| Accounts payable | 76,387 | 55,705 |
| Jackpot liabilities | 55,942 | 64,061 |
| Accrued employee benefit plan liabilities | 31,425 | 23,746 |
| Accrued interest | 31,369 | 30,684 |
| Other accrued liabilities | <u>59,249</u> | <u>58,013</u> |
| Total Current Liabilities | 258,993 | 235,487 |
| Long-term notes payable, net of current maturities | 991,507 | 990,436 |
| Long-term jackpot liabilities | 267,985 | 293,895 |
| Other liabilities | <u>8,646</u> | <u>3,024</u> |
| Total Liabilities | <u>1,527,131</u> | <u>1,522,842</u> |
| Commitments and contingencies (See Note 14) | | |
| Stockholders' equity | | |
| Common stock, \$.000625 par value; 320,000,000 shares authorized; 153,739,686 and 152,871,297 shares issued | 96 | 96 |
| Additional paid-in capital | 278,825 | 261,941 |
| Retained earnings | 1,043,184 | 886,392 |
| Treasury stock; 81,170,767 and 65,515,867 shares, at cost | (1,215,707) | (897,234) |
| Accumulated other comprehensive loss | <u>(9,813)</u> | <u>(8,977)</u> |
| Total Stockholders' Equity | <u>96,585</u> | <u>242,218</u> |
| Total Liabilities and Stockholders' Equity | <u>\$1,623,716</u> | <u>\$1,765,060</u> |

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

Consolidated Statements of Cash Flows

| | Years Ended | | |
|--|-------------------------------|----------------------------|-------------------------------|
| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
| <i>(Dollars in thousands)</i> | | | |
| Cash Flows from Operating Activities | | | |
| Net income | <u>\$ 156,792</u> | <u>\$ 62,058</u> | <u>\$ 152,446</u> |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 54,387 | 61,448 | 44,494 |
| Amortization of discounts and deferred offering costs | 2,457 | 879 | - |
| Provision for bad debts | 10,153 | 8,153 | 4,735 |
| Provision for inventory obsolescence | 16,001 | 19,185 | 9,173 |
| Gain on investment securities and fixed assets | (3,636) | (4,876) | (11,146) |
| Common stock awards | 1,216 | 1,005 | 1,973 |
| (Increase) decrease in assets, net of effects from acquisitions of businesses: | | | |
| Receivables | (32,878) | 17,257 | 8,585 |
| Inventories | (67,430) | (32,403) | (57,690) |
| Prepaid expenses and other | (5,993) | (21,867) | (21,696) |
| Other assets | (8,458) | (8,864) | 6,473 |
| Net accrued and deferred income taxes, net of tax benefit of employee stock plans | (17,394) | 38,165 | (22,343) |
| Increase in accounts payable and accrued liabilities, net of effects from acquisitions of businesses | 44,610 | 13,481 | 6,187 |
| Impairment of assets and restructuring charges | 6 | 98,118 | - |
| Extraordinary loss on debt retirement | - | 4,894 | - |
| Earnings of unconsolidated affiliates (in excess of) less than distributions | (20,993) | 4,806 | (14,042) |
| Other | <u>-</u> | <u>-</u> | <u>(23)</u> |
| Total adjustments | <u>(27,952)</u> | <u>199,381</u> | <u>(45,320)</u> |
| Net cash provided by operating activities | <u>128,840</u> | <u>261,439</u> | <u>107,126</u> |

Consolidated Statements of Cash Flows

| | Years Ended | | |
|---|-------------------------------|----------------------------|-------------------------------|
| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
| <i>(Dollars in thousands)</i> | | | |
| Cash Flows from Investing Activities | | | |
| Cash advanced on loans receivable | (25,327) | - | - |
| Payments received on loans receivable | 3,519 | - | - |
| Investment in property, plant and equipment | (18,460) | (17,751) | (16,828) |
| Proceeds from sale of property, plant and equipment | 11,503 | 2,988 | 24,452 |
| Purchase of investment securities | (14,034) | (12,510) | (15,191) |
| Proceeds from sale of investment securities | 12,758 | 11,957 | 12,528 |
| Proceeds from investments to fund liabilities to jackpot winners | 30,469 | 194,957 | 40,286 |
| Purchase of investments to fund liabilities to jackpot winners | (25,202) | (43,589) | (102,122) |
| Proceeds from sale of other assets | 43,249 | - | - |
| Investment in unconsolidated affiliates | (55) | (26,229) | (1,422) |
| Acquisition of businesses, net of cash acquired | <u>-</u> | <u>(198,860)</u> | <u>(181,764)</u> |
| Net cash provided by (used in) investing activities | <u>18,420</u> | <u>(89,037)</u> | <u>(240,061)</u> |
| Cash Flows from Financing Activities | | | |
| Proceeds from long-term debt | 12,008 | 1,636,276 | 624,199 |
| Principal payments on debt | (10,408) | (1,013,484) | (430,018) |
| Payments on jackpot liabilities | (111,251) | (261,899) | (40,286) |
| Collections from systems to fund jackpot liabilities | 82,769 | 89,184 | 138,442 |
| Proceeds from employee stock plans | 13,287 | 3,693 | 7,484 |
| Purchases of treasury stock | (318,473) | (361,419) | (122,180) |
| Penalties paid on early retirement of debt | - | (4,658) | - |
| Payments of cash dividends | <u>-</u> | <u>(6,474)</u> | <u>(13,594)</u> |
| Net cash provided by (used in) financing activities | <u>(332,068)</u> | <u>81,219</u> | <u>164,047</u> |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | <u>3,372</u> | <u>(2,691)</u> | <u>(7,470)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (181,436) | 250,930 | 23,642 |
| Cash and Cash Equivalents at: Beginning of Year | <u>426,343</u> | <u>175,413</u> | <u>151,771</u> |
| End of Year | <u>\$ 244,907</u> | <u>\$ 426,343</u> | <u>\$ 175,413</u> |

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

Consolidated Statements of Changes in Stockholders' Equity

| | Years Ended | | |
|--|-----------------------|--------------------|-----------------------|
| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
| <i>(Amounts in thousands)</i> | | | |
| Common Stock | | | |
| Balance at beginning of year 152,871; 152,587; and 151,883 shares | \$ 96 | \$ 95 | \$ 95 |
| Employee stock plans 869; 284; and 704 shares | - | 1 | - |
| Balance at end of year 153,740 shares at 2000 | <u>\$ 96</u> | <u>\$ 96</u> | <u>\$ 95</u> |
| Additional Paid-In Capital | | | |
| Balance at beginning of year | \$ 261,941 | \$ 256,656 | \$ 243,950 |
| Employee stock plans | 13,287 | 3,710 | 7,484 |
| Common stock awards | 1,216 | 1,005 | 1,973 |
| Tax benefit of employee stock plans | 2,381 | 570 | 3,249 |
| Balance at end of year | <u>\$ 278,825</u> | <u>\$ 261,941</u> | <u>\$ 256,656</u> |
| Retained Earnings | | | |
| Balance at beginning of year | \$ 886,392 | \$ 827,542 | \$ 688,545 |
| Dividends declared | - | (3,208) | (13,449) |
| Net income | 156,792 | 62,058 | 152,446 |
| Balance at end of year | <u>\$ 1,043,184</u> | <u>\$ 886,392</u> | <u>\$ 827,542</u> |
| Treasury Stock | | | |
| Balance at beginning of year | \$ (897,234) | \$(535,797) | \$(413,617) |
| Purchases of treasury stock | (318,473) | (361,437) | (122,180) |
| Balance at end of year | <u>\$(1,215,707)</u> | <u>\$(897,234)</u> | <u>\$(535,797)</u> |
| Accumulated Comprehensive Income (Loss) ^(a) | | | |
| Balance at beginning of year | \$ (8,977) | \$ (7,220) | \$ 874 |
| Other comprehensive loss | (836) | (1,757) | (8,094) |
| Balance at end of year | <u>\$ (9,813)</u> | <u>\$ (8,977)</u> | <u>\$ (7,220)</u> |
| Summary of Total Comprehensive Income ^(a) | | | |
| Net income | \$ 156,792 | \$ 62,058 | \$ 152,446 |
| Other comprehensive loss | (836) | (1,757) | (8,094) |
| Comprehensive income | <u>\$ 155,956</u> | <u>\$ 60,301</u> | <u>\$ 144,352</u> |

^(a) All items of comprehensive income and other comprehensive income are displayed net of tax effects (see Note 16).

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

Notes to 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 referred to as “Product Sales” and the development, marketing and operation of wide-area progressive systems and gaming equipment leasing referred to as “Proprietary Gaming”. This segment includes our wholly-owned gaming operations and our unconsolidated joint venture activities reported as earnings of unconsolidated affiliates. Our revenues are generated domestically in the US and Canada, and internationally in Australia, Europe, Japan, Latin America, New Zealand, South Africa, and the United Kingdom.

Product Sales

IGT manufactures domestically a broad range of gaming machines, consisting of traditional spinning reel slot machines, video gaming machines, government-sponsored and other video gaming devices. For our domestic and certain international markets, we offer hundreds of recognized 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 markets in Australia, Europe, Latin America and South Africa are similar to the spinning reel and video games in North America. 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 Japan and the United Kingdom markets 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.

Proprietary Gaming

Approximately 5% 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 connect 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 since 1986. As of September 30, 2000, IGT operated 149 such systems in 17 domestic jurisdictions, including Nevada, New Jersey, and Native American markets, as well as internationally in Iceland. Stand alone versions of some of the recurring revenue games are also operated in Colorado, Connecticut, Illinois, Indiana, Louisiana, Nevada, Canada, and on cruise ships.

We operate some of these systems under joint marketing alliances, principally with Anchor Gaming (Anchor). The purpose of these strategic alliances is to combine the game development efforts of other companies with IGT’s wide-area progressive system expertise. 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.

Notes to Consolidated Financial Statements

Principles of Consolidation and Revenue Recognition

The consolidated financial statements include the accounts of International Game Technology and all of its majority-owned subsidiaries. Investments in unconsolidated affiliates which are 50% or less owned are accounted for under the equity method. All material inter-company 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:

| | Years Ended | | |
|-------------------------------|-----------------------|--------------------|-----------------------|
| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
| <i>(Dollars in thousands)</i> | | | |
| Gaming Operations | | | |
| Proprietary systems | \$249,952 | \$244,808 | \$253,318 |
| Lease operations | <u>45,071</u> | <u>32,700</u> | <u>28,600</u> |
| Total | <u>\$295,023</u> | <u>\$277,508</u> | <u>\$281,918</u> |

Gaming operations revenues consist of revenues relating to the operation of the proprietary games, either connected to progressive jackpot systems or in stand-alone formats, and the lease and rental of gaming and video lottery machines. Revenues from proprietary jackpot systems are recognized monthly based on a percentage of the revenue, or "coin in". Revenues from proprietary games in stand-alone format are recognized monthly based on the net win that the game generates for the operator. Lease and rental revenue is recognized with the passage of time.

The operation of linked progressive systems varies among jurisdictions as a result of different gaming regulations. In all jurisdictions, the jackpot on wide area progressive systems increases based on the coin-in. The casinos pay a percentage of the coin-in to IGT, an administrator or a trust to fund the progressive jackpot. This percentage of coin-in (contribution) is recognized as revenue. Concurrently, IGT, the administrator or the trust recognize a liability (liability for jackpots not yet won) and jackpot expense (recorded in cost of gaming operations) for the cost to fund this jackpot in the future.

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 26 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*TM 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.

Notes to Consolidated Financial Statements

Earnings of Unconsolidated Affiliates

IGT operates several proprietary systems under joint venture agreements, principally with Anchor Gaming, that are accounted for under the equity method. Because the nature of the operations of these joint ventures are the same as our gaming operations and these activities are an integral part of our business, the earnings from unconsolidated affiliates is included as a component of income from operations. In accordance with the equity method, IGT's portion of joint venture income is recorded net of expenses and is presented on the income statement under a separate caption titled Earnings of Unconsolidated Affiliates.

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 recorded.

Cash and Cash Equivalents

Cash and cash equivalents includes operating cash and cash required for funding progressive systems jackpot payments. 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 to 5 years |
| Manufacturing machinery and equipment | 2 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 8).

Notes to Consolidated Financial Statements

Investments to Fund Liabilities to Jackpot Winners

These investments represent discounted US Treasury Securities purchased to meet obligations for annual payments to 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 2027. 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 9). Other assets also include deferred royalties, 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. At times IGT may enter into interest rate swap agreements to effectively manage variable interest rate fluctuations. Amounts paid under these 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 issued Statement of Financial Accounting Standard 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.

Notes to Consolidated Financial Statements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 clarifies existing accounting principles related to revenue recognition in financial statements. SAB 101 is effective for the fourth quarter of our fiscal year 2001. We believe that the adoption of this statement will not have a material impact on our financial condition or results of operations.

Reclassifications

Certain amounts in the comparative prior years' consolidated financial statements have been reclassified to be consistent with the presentation used in the current fiscal year. In this report, we have reclassified our presentation of earnings from unconsolidated joint venture operations. We previously reported earnings from unconsolidated joint ventures, net of expenses, as a component of gaming operations revenues. Unless otherwise noted, revenues in this report exclude revenues, net of expenses, from our unconsolidated joint ventures. In this report and going forward, we will report the net results of our unconsolidated joint ventures as a separate component of operating income on the income statement under a separate caption titled Earnings of Unconsolidated Affiliates.

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, subsequent quarters end on the Saturday closest to the last day of the quarter end month.

2. Acquisitions, Divestitures, and Subsequent Events

Acquisitions

In September 1999, we completed the purchase of Sodak, a South Dakota-based distributor of casino gaming products and software systems to Native American casinos 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 \$87.0 million based on estimated fair values of the tangible assets and liabilities at the date of acquisition. The Miss Marquette riverboat, with its associated real property and assets, was classified as an asset held for sale in the purchase price and net assets of the Sodak acquisition. It was subsequently sold for \$43.0 million. The excess of the purchase price over the net assets acquired totaled \$111.9 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.

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

| | October 2, 1999 | September 30, 1998 |
|---|--------------------|-----------------------|
| <i>(Dollars in thousands, except per share amounts)</i> | | |
| Total revenues | \$887,881 | \$784,847 |
| 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., Limited (Access) of Sydney, Australia. During the latter half of fiscal 1999 and the first quarter of fiscal 2000, 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. In December 1999, notes receivable increased by \$3.9 million as a result of converting our equity interest in Access to a debt instrument.

Notes to Consolidated Financial Statements

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. 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. These acquisitions were funded primarily with additional borrowings on our line of credit, as well as long-term borrowings by our Australian subsidiary. See Note 8 for a discussion regarding Olympic.

Divestitures

In July 2000, in a move to eliminate duplication within our operations in Japan, we sold Barcrest KK, the Japanese subsidiary of Barcrest, for a gain of \$3.2 million (\$2.0 million net of tax). The net cash proceeds from the sale were \$9.8 million and the net assets disposed of were \$6.6 million. The purchaser is a Japanese company engaged in the manufacture, development, and sale of pachinko and pachisuro slot machines.

Subsequent Events

In October 2000, IGT began negotiations to acquire Silicon Gaming, Inc. (Silicon). Silicon, headquartered in Palo Alto, California, designs and manufactures a full line of innovative wagering products and holds an extensive library of game applications. Under the terms of the proposed transaction, the total consideration paid by IGT would be approximately \$45.0 million. If a definitive agreement is reached, completion of the business combination will be conditioned upon regulatory approvals, Silicon shareholder approval and other customary closing conditions.

3. Investment Securities

Available-for-sale investment securities consisted of the following:

| | Net Cost | <u>Gross Unrealized</u> | | Market Value |
|-------------------------------|-----------------|-------------------------|------------------|-----------------|
| | | Gains | Losses | |
| <i>(Dollars in thousands)</i> | | | | |
| September 30, 2000 | | | | |
| US government obligations | \$10,010 | \$ - | \$ (122) | \$ 9,888 |
| Equity securities | <u>12,397</u> | <u>102</u> | <u>(914)</u> | <u>11,585</u> |
| Total investment securities | <u>\$22,407</u> | <u>\$ 102</u> | <u>\$(1,036)</u> | <u>\$21,473</u> |
| October 2, 1999 | | | | |
| US government obligations | \$10,010 | \$ - | \$ (60) | \$ 9,950 |
| Equity securities | <u>10,083</u> | <u>-</u> | <u>(1,487)</u> | <u>8,596</u> |
| Total investment securities | <u>\$20,093</u> | <u>\$ -</u> | <u>\$(1,547)</u> | <u>\$18,546</u> |

At September 30, 2000, debt securities had maturity dates ranging from five months to 14 years.

Below is a summary of sales of available-for-sale securities for the years ended:

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|--------------------------------------|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Proceeds from sales | \$12,758 | \$11,956 | \$12,528 |
| Gross realized gains | 1,441 | 5,852 | 1,145 |
| Gross realized losses | 403 | 27 | 187 |
| Permanent impairment loss recognized | - | 236 | - |

Notes to Consolidated Financial Statements

4. Investments to Fund Liabilities to Jackpot Winners

Held-to-maturity investments to fund liabilities to jackpot winners consisted of the following:

| | Amortized Cost | <u>Gross Unrealized</u> Gains Losses | | Market Value |
|-------------------------------|-------------------|--|------------------|------------------|
| <i>(Dollars in thousands)</i> | | | | |
| September 30, 2000 | | | | |
| US government obligations | <u>\$257,665</u> | <u>\$13,584</u> | <u>\$(4,006)</u> | <u>\$267,243</u> |
| October 2, 1999 | | | | |
| US government obligations | <u>\$262,932</u> | <u>\$10,202</u> | <u>\$(4,892)</u> | <u>\$268,242</u> |

Federal legislation was passed in October 1998 permitting 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.

Since all proceeds from the sale of these securities were paid to jackpot winners, the net realized gain was offset by an equal loss on the settlement of winner liabilities. Below is a summary of sales of these securities for the years ended:

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|-------------------------------|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Proceeds from sales | \$3,020 | \$154,146 | - |
| Gross realized gains | 99 | 5,682 | - |
| Gross realized losses | 10 | 2,025 | - |

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.

Notes to Consolidated Financial Statements

The following table represents the estimated future collections of notes and contracts receivable, net of allowances, at September 30, 2000:

| Fiscal Year | Estimated Receipts |
|-------------------------------|---------------------------|
| <i>(Dollars in thousands)</i> | |
| 2001 | \$ 76,320 |
| 2002 | 40,996 |
| 2003 | 14,125 |
| 2004 | 4,159 |
| 2005 | 1,402 |
| Thereafter | <u>16,206</u> |
| | <u>\$153,208</u> |

At September 30, 2000 and October 2, 1999, the following allowances for doubtful notes and contracts were netted against current and long-term maturities:

| | September 30, 2000 | October 2, 1999 |
|-------------------------------|-------------------------------|----------------------------|
| <i>(Dollars in thousands)</i> | | |
| Current | \$14,607 | \$14,157 |
| Long-term | <u>3,426</u> | <u>5,497</u> |
| | <u>\$18,033</u> | <u>\$19,654</u> |

Occasionally, IGT has provided loans, other than for gaming equipment, to customers. With the acquisition of Sodak and the restructuring of CMS-International (CMS) (see Note 6), our portfolio of this type of loan has increased. Included in total notes and contracts receivable were loans of \$49.4 million at September 30, 2000 and \$27.6 million at October 2, 1999. Allowances for doubtful loans were \$60,000 at September 30, 2000, and \$58,000 at October 2, 1999. These loans are generally for terms of one to five years with interest at prevailing rates.

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 September 30, 2000, we had bank deposits in excess of insured limits of approximately \$43.6 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. We did not have sales to a single customer which exceeded 10% of revenues during fiscal 2000, 1999 or 1998. Accounts, contracts, and notes receivable by region as a percentage of total receivables at September 30, 2000 were as follows:

| Domestic Region | |
|--|------------|
| Native American casinos | 30% |
| Nevada | 29% |
| Riverboats (greater Mississippi River area) | 7% |
| Other US regions (individually less than 3%) | <u>10%</u> |
| Total domestic | <u>76%</u> |

Notes to Consolidated Financial Statements

International Region

| | |
|---|-------------|
| Europe | 7% |
| Australia | 6% |
| Latin America | 5% |
| Other international (individually less than 3%) | <u>6%</u> |
| Total international | <u>24%</u> |
| Total | <u>100%</u> |

In September 1993, we sold our equity ownership interest in CMS to Summit Casinos-Nevada, Inc., whose owners included 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 was restructured in November 1999, at which time 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 September 30, 2000, the outstanding balances of these notes totaled \$13.9 million. At this time we do not believe a reserve against these notes is necessary.

7. Intangible Assets

Intangible assets consisted of the following:

| | September 30, 2000 | October 2, 1999 |
|---|-----------------------|--------------------|
| <i>(Dollars in thousands)</i> | | |
| Intellectual property | \$ 1,650 | \$ 1,650 |
| Excess of cost over net assets acquired | <u>148,631</u> | <u>153,209</u> |
| | 150,281 | 154,859 |
| Less accumulated amortization | <u>(6,543)</u> | <u>(2,823)</u> |
| | <u>\$ 143,738</u> | <u>\$ 152,036</u> |

During fiscal 1999, intangible assets increased by \$111.9 million in connection with our acquisition of Sodak (see Note 2) and decreased by \$86.8 million as a result of impairment charges recorded relating to our purchase of Olympic. See Note 8 for a discussion of the reasons for the impairment charges.

8. Impairment of Assets and Restructuring Costs

IGT - Australia

Acquisition of Olympic

As discussed in Note 2, IGT-Australia acquired the assets of Olympic in March 1998. The acquisition price was \$110.5 million. The goal of the Olympic acquisition was to make our Australian operation a stronger and more efficient competitor in the Australian market place and enhance our profitability through the integration of our Australian operation and that of Olympic.

The Olympic purchase price was allocated to net tangible assets of \$8.4 million, identifiable intangibles of \$40.2 million, and \$61.9 million to excess of cost over net assets acquired or goodwill. Net tangible assets were comprised of accounts receivable, raw materials, and manufacturing machinery and equipment, offset by accrued liabilities. The

Notes to Consolidated Financial Statements

identifiable intangible assets represented intellectual property consisting of technology, designs, know-how, patents, trademarks, brand names, and copyrights.

Due to events and difficulties we experienced related to the acquisition of Olympic, as described below, we recorded an impairment charge of \$86.8 million in the fourth quarter of fiscal 1999.

Operational and Other Issues Encountered after Acquisition

After the acquisition, several unforeseen events negatively impacted our Australian operations and resulted in financial results much below those anticipated. Factors contributing to the unfavorable financial results included failure of the planned integration of our existing operations and those of Olympic, changes in our Australian management, adverse changes in the regulatory environment, product performance issues, and new competition. As discussed below, we experienced problems following the acquisition in March 1998 through September 1999. In the fourth quarter of fiscal 1999, management made the decision to abandon the Olympic product line and determined there was no current or future benefit in the identifiable assets acquired from Olympic. Impairment charges were recorded at that time.

In May 1998, the workers at the Olympic manufacturing facility in Melbourne went on strike. We were forced to combine manufacturing for both IGT and Olympic products in the existing Sydney plant much sooner than anticipated in the original integration plan. Additionally, several key staff of Olympic declined to relocate to Sydney. As a result, we experienced severe difficulty processing orders, manufacturing machines, and servicing customers. Australian management began focusing on the day-to-day product issues and the overall integration plans were not the priority. In June 1998, IGT-Australia's Managing Director who played a key role in the acquisition resigned. Turnover at this level of management hampered the execution of the integration plan and adversely affected the performance of the acquired operations.

In October 1998, new Australian regulations required that the approval process for new gaming machines and products use self-testing followed by a final review by regulators assigned to the individual gaming suppliers. When IGT and Olympic combined, we were given one regulatory approval channel instead of maintaining the two that the companies had before the acquisition. The implementation of the new self-testing processes combined with the decrease in regulatory resources resulted in delays in product approval, slowed the release of new products and adversely affected sales. In addition, we identified performance issues with the acquired product line. Olympic had developed two gaming machine platforms, the OA2 and the OA3, along with the Sentinel gaming system product. The OA2 machine hardware and operating system and the OA3 base platform were unstable, resulting in customer complaints and costly retrofits. The Sentinel product had technical problems that would have required additional investments to resolve. In March 1999, IGT-Australia's second Managing Director along with the IGT-Australia's Sales Director resigned. Competitors capitalized on our performance problems during this period and increased sales while our sales declined.

We continued to experience turnover in key positions when the Operations Manager resigned in the third quarter of 1999 and the IGT-Australia's Game Development Manager, Marketing Director, and Business Development Director resigned during the fourth quarter of 1999. Although the newest IGT-Australia's Managing Director had developed a revised business plan and implemented positive changes in the sales department, these improvements were not enough to overcome the problems that had developed from the time of the acquisition through the end of September 1999. Also in the fourth quarter of fiscal 1999, IGT management made the decision to abandon the OA2, OA3, and the Sentinel products acquired. We did not realize any benefit from what we thought would be complimentary products. The financial results during fiscal 1999 did not meet our expectations and our market share in Australia following the acquisition had declined instead of increased.

Notes to Consolidated Financial Statements

Development of Restructuring Plan and Recognition of Impairment

In the fourth quarter of fiscal 1999, management considered the available facts in determining a go-forward strategy for IGT-Australia. Given the unfavorable operating results, poor product performance, loss of customer confidence and market share, personnel turnover and changes in the regulatory operating environment in Australia, we believed we would not attain our original acquisition goals. Management concluded that it was in our best interest as a global gaming supplier to continue pursuing the Australian market and develop a comprehensive restructuring plan with several strategic initiatives aimed at stabilizing the Australian operations, reducing the overall complexity of the business and improving its operating performance. In connection with this plan, restructuring costs of \$6.0 million were recognized in the fourth quarter of fiscal 1999, comprised of \$4.0 million for inventory obsolescence and \$2.0 million for asset and facility redundancy costs. During fiscal 2000, we recorded additional restructuring charges of \$1.9 million related to the elimination of certain administrative and manufacturing positions in Australia. As of September 30, 2000, 130 positions were eliminated resulting in payments of \$2.3 million. Other restructuring costs of \$1.1 million were paid during fiscal 2000.

During the fourth quarter of 1999, due to the events and circumstances that had occurred since the acquisition of Olympic described above, we prepared a financial analysis to determine if, and to what extent, the identifiable intangible assets and goodwill recorded in connection with the acquisition of Olympic were impaired. In accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", we estimated the projected future cash flows of the business based on reasonable and supportable assumptions and projections. This financial analysis indicated the expected discounted and undiscounted future cash flows were less than the carrying amounts of the intangible assets and goodwill, and the assets were fully impaired. These intangible assets held no remaining value and did not provide any future potential benefit.

The eventual success of the restructuring plan hinged on our ability to develop a simplified product plan incorporating hardware designs and software platforms not yet developed and a suite of games utilizing the new platform. Given our experiences with the pace of regulatory approval, there was uncertainty as to the actual time frame required to implement this initiative. Market acceptance of the reduced product set and player acceptance of the new games would be equally important. The plan included producing machines for the Australia market in the United States in order to achieve cost improvements. This would also require regulatory approval, which was again a significant uncertainty. Finally, the significant changes in management created an uncertainty whether these strategic initiatives could be successfully implemented.

Given the financial analysis, consideration of the risks and uncertainties of the restructuring plan along with the abandonment of all Olympic product lines, software, trademarks and brand names, we determined the total unamortized balance of intangible assets including intellectual property and goodwill was fully impaired. In accordance with SFAS 121, we recorded an impairment charge of \$86.8 million in the fourth quarter of fiscal 1999.

IGT – Brazil

In the fourth quarter of fiscal 1999, the government in Brazil rescinded the law allowing gaming devices in bingo halls throughout this market. At that time, we recorded impairment charges of \$5.3 million relating to our assessment of the recoverability of our inventories and receivables in Brazil. During fiscal 2000, we received payments of \$1.9 million for receivables and inventories previously considered fully impaired.

Notes to Consolidated Financial Statements

9. Notes Payable

Notes payable consisted of the following:

| | September 30, 2000 | October 2, 1999 |
|--|-----------------------|--------------------|
| <i>(Dollars in thousands)</i> | | |
| Senior notes, net of unamortized discount | \$991,507 | \$990,436 |
| Credit facilities | <u>4,621</u> | <u>3,278</u> |
| Total | 996,128 | 993,714 |
| Less current maturities | <u>(4,621)</u> | <u>(3,278)</u> |
| Long-term notes payable, net of current maturities | <u>\$991,507</u> | <u>\$990,436</u> |

The following table represents the future fiscal year principal payments of our notes payable at September 30, 2000:

| Fiscal Year | Principal Payments |
|-------------------------------|--------------------|
| <i>(Dollars in thousands)</i> | |
| 2001 | \$ 4,621 |
| 2002 | - |
| 2003 | - |
| 2004 | 400,000 |
| 2005 | - |
| 2006 and after | <u>600,000</u> |
| Total principal payments | 1,004,621 |
| Less unamortized discount | <u>(8,493)</u> |
| Net notes payable | <u>\$ 996,128</u> |

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 Senior Notes for identical registered notes. A portion of the proceeds was used to redeem previously outstanding 7.84% Senior Notes due 2004, which resulted in a prepayment penalty of \$3.3 million (net of tax) reflected as an extraordinary item in fiscal 1999. Additionally, we repaid outstanding borrowings under both our US and Australian credit facilities. The remaining net proceeds from the offering were used to fund our acquisition of Sodak, working capital, and share repurchases.

Credit Facilities

Our domestic and foreign borrowing facilities totaled \$273.0 million at September 30, 2000. Of this amount, \$4.6 million was drawn, \$2.8 million was reserved for letters of credit, and the remaining \$265.6 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 September 30, 2000, we were in compliance with all applicable covenants.

Notes to Consolidated Financial Statements

10. 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 leases which have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2000.

| Fiscal Year | Operating Leases |
|-------------------------------|-----------------------------|
| <i>(Dollars in thousands)</i> | |
| 2001 | \$ 5,637 |
| 2002 | 3,489 |
| 2003 | 1,558 |
| 2004 | 638 |
| 2005 | 194 |
| 2006 and after | <u>198</u> |
| Total minimum payments | <u>\$11,714</u> |

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 receipts of \$2.3 million for the period of October 2000 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.

Our total rental expense was approximately \$5.9 million for fiscal 2000, \$6.0 million for fiscal 1999 and \$5.1 million for fiscal 1998.

11. Jackpot Liabilities

IGT receives a percentage of the amounts wagered or fees for machine rental and service from the linked wide-area 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 26 years without interest. The following schedule sets forth the future gross payments due to jackpot winners under these systems at September 30, 2000:

| Fiscal Year | Payments |
|-------------------------------|------------------|
| <i>(Dollars in thousands)</i> | |
| 2001 | \$ 30,251 |
| 2002 | 27,939 |
| 2003 | 27,896 |
| 2004 | 27,769 |
| 2005 | 27,769 |
| 2006 and after | <u>271,029</u> |
| | <u>\$412,653</u> |

Notes to Consolidated Financial Statements

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

| | September 30, 2000 | October 2, 1999 |
|---|-----------------------|--------------------|
| <i>(Dollars in thousands)</i> | | |
| Gross payments due to jackpot winners | \$ 412,653 | \$431,661 |
| Unamortized discount on payments to jackpot winners | (151,472) | (164,481) |
| Accrual for jackpots not yet won | <u>62,746</u> | <u>90,776</u> |
| Total jackpot liabilities | 323,927 | 357,956 |
| Less current liabilities | <u>(55,942)</u> | <u>(64,061)</u> |
| Long-term jackpot liabilities | <u>\$ 267,985</u> | <u>\$293,895</u> |

We amortize the discounts on the jackpot liabilities to interest expense. During fiscal 2000, we recorded interest expense on jackpot liabilities of \$17.3 million, \$25.9 million in fiscal 1999, and \$25.6 million in fiscal 1998. We were required to maintain cash and investments relating to systems liabilities totaling \$38.8 million at September 30, 2000 and \$54.6 million at October 2, 1999.

12. Financial Instruments

IGT uses derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in 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. IGT 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 September 30, 2000, IGT had net foreign currency exposure of \$58.0 million hedged with \$63.5 million in currency forward contracts. At October 2, 1999, we had net foreign currency exposure of \$41.7 million, of which \$38.8 million 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.

Interest Rate Management

During fiscal 1999, we effectively converted variable rate debt in Australia to fixed rate debt using an interest rate swap agreement with three counterparties. These swaps were required under our Australian facility agreement and had quarterly interest settlement dates. In conjunction with the payoff and closure of this Australian facility agreement in May 1999, these swaps were settled with no gain/loss recorded.

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 \$2.2 million at September 30, 2000 and \$2.3 million at October 2, 1999. 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 9), totaling \$2.8 million at September 30, 2000 and \$3.2 million at October 2, 1999, 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.

Notes to Consolidated Financial Statements

At September 30, 2000 and 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 recognized in income when the hedged transaction occurred. At September 30, 1998, the unrealized gains/losses on these instruments were immaterial to the consolidated financial statements.

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

| | September 30, | | October 2, | |
|--------------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
| | 2000 | | 1999 | |
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| <i>(Dollars in thousands)</i> | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$244,907 | \$244,907 | \$426,343 | \$426,343 |
| Investment securities | 21,473 | 21,473 | 18,546 | 18,546 |
| Notes and contracts receivable | 153,208 | 139,086 | 135,857 | 125,581 |
| Investments to fund jackpot payments | 257,665 | 267,243 | 262,932 | 268,242 |
| Liabilities | | | | |
| Jackpot liabilities | 323,927 | 333,505 | 357,956 | 363,267 |
| Notes payable obligations | 996,128 | 981,141 | 993,714 | 955,778 |
| Foreign currency contracts | | | | |
| On balance sheet | 63,467 | 61,481 | 38,813 | 39,860 |
| Off balance sheet | - | - | - | - |

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 jackpot payments are based on quoted market prices. The fair value of our 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 jackpot liabilities is based on quoted market prices of investments that will be used to fund these liabilities. The estimated fair value of the registered Senior Notes is based on quoted market prices. The carrying value of the credit facilities included in notes payable approximates fair value.

The estimated fair value of foreign currency contracts is based on quoted market prices for an instrument with similar terms.

Notes to Consolidated Financial Statements

13. Earnings Per Share

The following table shows the reconciliation of basic earnings per share (EPS) to diluted EPS for income before extraordinary item as of and for the years ended:

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|---|-----------------------|--------------------|-----------------------|
| <i>(Amounts in thousands, except per share amounts)</i> | | | |
| Income before extraordinary item | <u>\$ 156,792</u> | <u>\$ 65,312</u> | <u>\$ 152,446</u> |
| Weighted average common shares outstanding | 76,586 | 99,461 | 113,064 |
| Dilutive effect of stock options outstanding | <u>1,643</u> | <u>777</u> | <u>1,639</u> |
| Weighted average common and potential shares outstanding | <u>78,229</u> | <u>100,238</u> | <u>114,703</u> |
| Basic earnings per share | \$ 2.05 | \$ 0.65 | \$ 1.35 |
| Diluted earnings per share | \$ 2.00 | \$ 0.65 | \$ 1.33 |
| Number of common shares excluded from diluted EPS because option exercise price was greater than average market price | 358 | 1,300 | 159 |

Stock Repurchase Plan

A stock repurchase plan was originally authorized by our Board of Directors in October 1990. As of November 25, 2000, the remaining share repurchase authorization, as amended, totaled 10.8 million additional shares. During fiscal 2000, we repurchased 15.7 million shares for an aggregate purchase price of \$318.5 million, including 11.0 million shares at \$21 per share pursuant to an issuer-tender offer. 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.

14. 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.

Notes to Consolidated Financial Statements

WMS

Under a resolution of matters reached in December 1999, all previously initiated lawsuits involving the infringement of our Telnaes patent by WMS Gaming, Inc. (WMS) were dismissed. WMS agreed to refrain from making, using, selling or offering for sale any machine that infringes the Telnaes patent until February 24, 2002 when the Telnaes patent expires. IGT received \$27.0 million in the settlement that was included in other income in fiscal 2000, as well as \$1.7 million in fees related to certain WMS operations previously conducted under license from IGT.

On October 28, 1999, IGT filed a complaint in the United States District Court, District of Nevada (Las Vegas) against WMS and three other defendants, including Silicon, alleging infringement of a patent covering video gaming machines that use a combination of push buttons on a panel and touch screens to perform the same functions in the play of the game (the '397 Patent, entitled Gaming Machine and Method Using Touch Screen). Subsequently, IGT's complaint was amended to include only WMS and Silicon. In response, WMS filed its answer and counterclaim on February 15, 2000. The counterclaim alleged, among other things, that IGT engaged in unlawful conduct under the federal (the Sherman and Clayton Acts) and state (the Nevada Unfair Trade Practices Act) antitrust laws and that IGT tortuously interfered with WMS' contractual relationships and prospective business advantage. WMS sought damages, including punitive damages of at least \$100 million in connection with the tortuous interference claim, declaratory and injunctive relief. Silicon also filed a counterclaim asserting patent invalidity. IGT and WMS executed a settlement agreement resolving all outstanding claims in September 2000. The suit between IGT and Silicon is in the early stages of discovery and no trial date has been set.

15. 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. We determine the net current and noncurrent deferred tax assets or liabilities separately for federal, state, and foreign jurisdictions.

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

| | September 30, 2000 | | October 2, 1999 | | September 30, 1998 | |
|---|-----------------------|---------------|--------------------|---------------|-----------------------|---------------|
| | Amount | Rate | Amount | Rate | Amount | Rate |
| <i>(Dollars in thousands)</i> | | | | | | |
| Taxes at federal statutory rate | \$ 85,745 | 35.0 % | \$ 35,488 | 35.0 % | \$ 82,086 | 35.0 % |
| Foreign subsidiaries tax | 2,410 | 0.9 | 3,657 | 3.6 | 591 | 0.3 |
| State income tax, net | 5,109 | 2.3 | 2,670 | 2.6 | 2,049 | 0.9 |
| Research and development credits | (750) | (0.3) | (2,192) | (2.2) | (247) | (0.1) |
| Valuation allowance, IGT-Australia | 2,063 | 0.7 | 6,067 | 6.0 | - | 0.0 |
| Expiration of tax contingencies | (850) | (0.3) | (5,344) | (5.3) | (1,163) | (0.5) |
| Adjustment to estimated income tax accruals | (3,010) | (1.2) | (3,306) | (3.3) | 272 | 0.1 |
| Other, net | <u>(2,522)</u> | <u>(1.1)</u> | <u>(959)</u> | <u>(0.8)</u> | <u>(1,502)</u> | <u>(0.7)</u> |
| Provision for income taxes | <u>\$ 88,195</u> | <u>36.0 %</u> | <u>\$ 36,081</u> | <u>35.6 %</u> | <u>\$ 82,086</u> | <u>35.0 %</u> |

Notes to Consolidated Financial Statements

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

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|-------------------------------|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Current | | | |
| Federal | \$ 80,893 | \$ (11,602) | \$ 106,431 |
| State | 5,645 | 358 | 4,657 |
| Foreign | <u>4,478</u> | <u>9,118</u> | <u>2,922</u> |
| Total current | <u>91,016</u> | <u>(2,126)</u> | <u>114,010</u> |
| Deferred | | | |
| Federal | (2,270) | 30,761 | (30,862) |
| State | 222 | 1,566 | (2,149) |
| Foreign | <u>(773)</u> | <u>5,880</u> | <u>1,087</u> |
| Total deferred | <u>(2,821)</u> | <u>38,207</u> | <u>(31,924)</u> |
| Provision for income taxes | <u>\$ 88,195</u> | <u>\$ 36,081</u> | <u>\$ 82,086</u> |

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

| | September 30, 2000 | October 2, 1999 |
|---|-----------------------|--------------------|
| <i>(Dollars in thousands)</i> | | |
| Current deferred tax assets | | |
| Reserves not currently deductible | \$ 22,228 | \$ 18,819 |
| Unrealized loss on currency translation adjustments | 4,582 | - |
| Foreign subsidiaries | 652 | 883 |
| Unrealized loss on investment securities | 327 | 542 |
| Other | <u>1,297</u> | <u>3,733</u> |
| Net current deferred tax asset | <u>29,086</u> | <u>23,977</u> |
| Non-current deferred tax assets | | |
| Reserves not currently deductible | 566 | 824 |
| Reserve differential for gaming activities | 69,869 | 64,669 |
| Foreign subsidiaries | 8,268 | 6,161 |
| State income taxes | 4,932 | 3,349 |
| Amortization of goodwill | 30,157 | 28,380 |
| Other | 1,246 | 3,111 |
| Non-current deferred tax liabilities | | |
| Difference between book and tax basis of property | (4,036) | (7,027) |
| Amortization of goodwill | (2,137) | (1,599) |
| Other | <u>(3,065)</u> | <u>(2,327)</u> |
| Total net non-current deferred tax asset | 105,800 | 95,541 |
| Valuation allowance ^(a) | <u>(8,130)</u> | <u>(6,067)</u> |
| Net non-current deferred tax asset | <u>97,670</u> | <u>89,474</u> |
| Net deferred tax asset | <u>\$ 126,756</u> | <u>\$ 113,451</u> |

^(a) Our valuation allowance relates to the uncertainty of the realization of certain deferred tax assets for IGT-Australia.

Notes to Consolidated Financial Statements

16. Other Comprehensive Income (Loss)

The components of IGT's other comprehensive income (loss) are as follows:

| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
|---|---------------------------|--------------------------------|--------------------------|
| <i>(Dollars in thousands)</i> | | | |
| Year ended September 30, 2000 | | | |
| Unrealized holding gains (losses) arising during period | \$ 1,651 | \$ (578) | \$ 1,073 |
| Reclassification adjustment to net income | <u>(1,038)</u> | <u>364</u> | <u>(674)</u> |
| Net unrealized gains (losses) | 613 | (214) | 399 |
| Foreign currency translation adjustments | <u>(1,900)</u> | <u>665</u> | <u>(1,235)</u> |
| Other comprehensive income (loss) | <u>\$ (1,287)</u> | <u>\$ 451</u> | <u>\$ (836)</u> |
| Year ended October 2, 1999 | | | |
| Unrealized holding gains (losses) arising during period | \$ 1,989 | \$ (696) | \$ 1,293 |
| Reclassification adjustment to net income | <u>(5,589)</u> | <u>1,956</u> | <u>(3,633)</u> |
| Net unrealized gains (losses) | (3,600) | 1,260 | (2,340) |
| Foreign currency translation adjustments | <u>897</u> | <u>(314)</u> | <u>583</u> |
| Other comprehensive income (loss) | <u>\$ (2,703)</u> | <u>\$ 946</u> | <u>\$ (1,757)</u> |
| Year ended September 30, 1998 | | | |
| Unrealized holding gains (losses) arising during period | \$ 1,747 | \$ (612) | \$ 1,135 |
| Reclassification adjustment to net income | <u>(959)</u> | <u>336</u> | <u>(623)</u> |
| Net unrealized gains (losses) | 788 | (276) | 512 |
| Foreign currency translation adjustments | <u>(13,240)</u> | <u>4,634</u> | <u>(8,606)</u> |
| Other comprehensive income (loss) | <u>\$ (12,452)</u> | <u>\$ 4,358</u> | <u>\$ (8,094)</u> |

The components of our accumulated other comprehensive income (loss) are as follows:

| | Unrealized Gains (Losses) on Securities | Foreign Currency Translation | Accumulated Other Comprehensive Loss |
|--------------------------------------|---|------------------------------------|--|
| <i>(Dollars in thousands)</i> | | | |
| Balance at September 30, 1998 | \$ 1,334 | \$ (8,554) | \$ (7,220) |
| Current-period change | <u>(2,340)</u> | <u>583</u> | <u>(1,757)</u> |
| Balance at October 2, 1999 | (1,006) | (7,971) | (8,977) |
| Current-period change | <u>399</u> | <u>(1,235)</u> | <u>(836)</u> |
| Balance at September 30, 2000 | <u>\$ (607)</u> | <u>\$ (9,206)</u> | <u>\$ (9,813)</u> |

Notes to Consolidated Financial Statements

17. Employee Benefit Plans

Employee Incentive Plans

IGT provides the following employee incentive plans: profit sharing and 401(k) plan, cash sharing, management bonus, and non-qualified deferred compensation. Total annual contributions from operating profits for all plans were \$38.6 million in fiscal 2000, \$27.1 million in fiscal 1999 and \$26.5 million in fiscal 1998.

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. Additionally, IGT shares a portion of its' profits with eligible employees. These profit sharing 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 and IGT-Japan employees. The management bonuses are paid out annually to key employees throughout the Company.

IGT implemented a non-qualified deferred compensation plan in September 1999 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 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 September 30, 2000, there were 484,000 shares available under this plan.

In January 2000, 300,000 shares of common stock were made available to the Barcrest Savings Related Share Option Scheme (ShareSave). Each year employees may sign up for ShareSave and must elect a contract that will vest over three, five, or seven years. Employees may contribute up to £3,000 annually. At September 30, 2000 there were 275,000 shares 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. 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. In May 1997, 200,000 shares were awarded to four 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. Restricted stock awarded to a participant may not be

Notes to Consolidated Financial Statements

voluntarily or involuntarily sold, assigned, transferred, pledged or encumbered during the restricted period. The shares vest in increments over a five year period.

No shares were awarded to participants in fiscal year 2000. Shares awarded to participants in fiscal 1999 and 1998 totaled 50,000 and 10,000, at a price of \$.01 per share. The compensation expense that has been charged against income for the restricted stock award plan totaled \$1.2 million, \$1.0 million and \$2.0 million for fiscal 2000, 1999 and 1998.

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 and expire 10 years subsequent to the grant.

At September 30, 2000, options to purchase 3.2 million shares were available for grant under the plans.

| | Number of Shares | Weighted Average Exercise Price |
|--|-----------------------------|--|
| Outstanding at September 30, 1997 | 5,556,737 | \$ 14.56 |
| Granted | 809,617 | \$ 23.30 |
| Forfeited or expired | (170,984) | \$ 17.63 |
| Exercised | <u>(617,742)</u> | \$ 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 | <u>(179,636)</u> | \$ 20.09 |
| Outstanding at October 2, 1999 | 5,617,669 | \$ 16.43 |
| Granted | 456,208 | \$ 21.98 |
| Forfeited or expired | (236,767) | \$ 19.99 |
| Exercised | <u>(718,485)</u> | \$ 15.76 |
| Outstanding at September 30, 2000 | <u>5,118,625</u> | \$ 16.85 |
| Options exercisable at: | | |
| September 30, 2000 | 3,341,790 | \$ 15.44 |
| October 2, 1999 | 3,217,047 | \$ 15.14 |
| September 30, 1998 | 2,540,732 | \$ 14.25 |

Notes to Consolidated Financial Statements

The following table summarizes information for stock options outstanding and exercisable at September 30, 2000 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:

| <u>Range of Exercise Prices</u> | <u>Outstanding</u> | | | <u>Exercisable</u> | |
|---------------------------------|---------------------------|--|--|---------------------------|--|
| | <u>Number Outstanding</u> | <u>Weighted Average Remaining Contractual Life</u> | <u>Weighted Average Exercise Price</u> | <u>Number Exercisable</u> | <u>Weighted Average Exercise Price</u> |
| \$ 7.8750 - \$ 13.2500 | 1,969,119 | 5.2 | \$ 12.97 | 1,832,264 | \$ 12.99 |
| 13.6250 - 15.5000 | 619,540 | 6.1 | 15.26 | 518,204 | 15.37 |
| 15.6250 - 18.8750 | 1,218,283 | 7.4 | 17.90 | 388,186 | 17.73 |
| 19.0000 - 30.3125 | <u>1,311,683</u> | 7.3 | 22.47 | <u>603,136</u> | 21.46 |
| 7.8750 - 30.3125 | <u>5,118,625</u> | 6.4 | 16.85 | <u>3,341,790</u> | 15.44 |

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. 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:

| | <u>September 30, 2000</u> | <u>October 2, 1999</u> | <u>September 30, 1998</u> |
|--|---------------------------|------------------------|---------------------------|
| <i>(Dollars in thousands, except per share amounts)</i> | | | |
| Net income | | | |
| As reported | \$ 156,792 | \$ 62,058 | \$ 152,446 |
| Pro forma | 153,495 | 57,793 | 146,948 |
| Basic earnings per share | | | |
| As reported | \$ 2.05 | \$ 0.62 | \$ 1.35 |
| Pro forma | 2.00 | 0.58 | 1.30 |
| Diluted earnings per share | | | |
| As reported | \$ 2.00 | \$ 0.62 | \$ 1.33 |
| Pro forma | 1.96 | 0.58 | 1.28 |
| Weighted average fair value of options granted during the year | \$ 10.06 | \$ 7.76 | \$ 8.27 |
| Weighted average fair value of restricted stock awards granted during the year | \$ - | \$ 17.82 | \$ 23.75 |

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 2000, 1999 and 1998: interest rates (zero-coupon US government issues with an average remaining life of 1.90 years) of 6.5%, 5.5% and 5.6%; dividend yields of .0%, .14% and .47%; volatility factors of the expected market price of IGT's common stock of .43, .45 and .35; weighted-average expected life of stock options of 1.90 years and an expected life of 1.0 years for employee stock purchases.

Notes to Consolidated Financial Statements

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 our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock based compensation.

18. Related Party Transactions

Joint Ventures

We operate certain *MegaJackpots*TM systems under joint venture agreements with various gaming or gaming related companies. Activities of these joint ventures include placement of progressive system and other participation games and pursuit of video lottery opportunities. At September 30, 2000 we had three active joint ventures of this nature. Additionally, IGT-UK designs games under a joint venture agreement with its main European distributor. We own a 50% share in each of these joint ventures.

The following is a table of our transactions with joint ventures as of and for the years ended:

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|--|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Net earnings of unconsolidated affiliates | \$ 105,991 | \$ 75,556 | \$ 65,181 |
| Asset and expense transfers | 68,273 | 27,253 | 45,390 |
| Capital contributions | - | 22,275 | 1,422 |
| Accounts receivable balance | 5,007 | 29,700 | 6,902 |
| Largest amount of indebtedness outstanding at anytime during the year | 9,615 | 29,700 | 25,513 |

We apply the equity method of accounting to our joint ventures. The following is summarized financial information from our largest joint venture partner, the Spin for Cash Wide Area Progressive Joint Venture (Spin for Cash) with Anchor Gaming, as of and for the years ended:

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|-------------------------------|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Revenues | \$ 375,379 | \$ 293,460 | \$ 246,851 |
| Costs and expenses | 168,716 | 145,572 | 117,294 |
| Operating Income | 206,663 | 147,888 | 129,557 |
| Net income | 211,932 | 149,958 | 130,979 |
| Current Assets | \$ 143,461 | \$ 103,367 | \$ 73,753 |
| Non-Current Assets | 109,603 | 96,576 | 97,989 |
| Total Assets | 253,064 | 199,943 | 171,742 |
| Current Liabilities | \$ 30,736 | \$ 56,936 | \$ 20,863 |
| Non-Current Liabilities | 81,575 | 66,197 | 86,952 |
| Total Liabilities | 112,311 | 123,133 | 107,815 |

Notes to Consolidated Financial Statements

Other Related Parties

A member of our Board of Directors was also a director and officer of the parent company of additional Nevada gaming businesses. In Iowa, our progressive jackpot systems are administered by a trust that we manage from which net profits are transferred to IGT. We recorded the following transactions from these related parties as of and for the years ended:

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|--|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Revenues recognized | \$ 10,289 | \$ 20,748 | \$ 19,813 |
| Contracts and accounts receivable balance | 1,067 | 3,685 | 1,307 |
| Largest amount of indebtedness outstanding at any time during the year | 3,704 | 4,562 | 2,047 |

19. Supplemental Statement of Cash Flows Information

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

We manufacture gaming machines which are used on our proprietary systems and are leased to customers under operating leases. Transfers between inventory and fixed assets resulted in an increase to property, plant and equipment of \$15.6 million in fiscal 2000, \$32.9 million in fiscal 1999 and \$17.3 million in fiscal 1998.

Dividends declared, but not yet paid, totaled \$3.3 million at September 30, 1998.

The tax benefit of stock options and the employee stock purchase plan totaled \$2.4 million in fiscal 2000, \$570,000 in fiscal 1999 and \$ 3.2 million in fiscal 1998.

Payments of interest were \$99.3 million in fiscal 2000, \$42.6 million in fiscal 1999 and \$41.2 million in fiscal 1998. Payments for income taxes were \$107.2 million in fiscal 2000, \$28.0 million in fiscal 1999 and \$101.2 million in fiscal 1998.

In conjunction with acquisitions of businesses during fiscal 1999 (see Note 2), the fair value of assets acquired totaled \$130.9 million and the fair value of liabilities assumed totaled \$43.9 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.

20. Business Segments

IGT operates principally in two lines of business: the development, manufacturing, marketing and distribution of gaming products, referred to as “product sales”, and the development, marketing and operation of wide-area progressive systems and gaming equipment leasing, referred to as “proprietary gaming”. The proprietary gaming segment includes our wholly-owned gaming operations and our unconsolidated joint venture activities reported as earnings of unconsolidated affiliates. Gaming operations and joint venture activities are viewed as a single business segment because the nature of the products in the joint ventures are the same as the products in our wholly-owned gaming operations. The same management group monitors all activities of the proprietary gaming segment. The joint venture is an integral part of our proprietary gaming segment.

Earnings of unconsolidated affiliates are recorded net of expenses using the equity method of accounting. Depreciation and amortization expenses are part of earnings of unconsolidated affiliates reported on our

Notes to Consolidated Financial Statements

income statement and represent our 50% share of these joint venture expenses. Assets of our unconsolidated affiliates presented below represent our investment in unconsolidated affiliates as recorded on our balance sheet. The additions to long-lived assets for the joint venture activities are recorded on the Spin for Cash financial statements. See Note 18.

The table below presents information as to our operations by our two business segments as of and for the years ended:

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|--|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Revenues | | | |
| Product sales | \$ 603,381 | \$ 576,598 | \$ 477,024 |
| Proprietary gaming | | | |
| Gaming operations | 295,023 | 277,508 | 281,918 |
| Earnings of unconsolidated affiliates | <u>105,991</u> | <u>75,556</u> | <u>65,181</u> |
| Total proprietary gaming | <u>401,014</u> | <u>353,064</u> | <u>347,099</u> |
| Total | 1,004,395 | 929,662 | 824,123 |
| Less earnings of | | | |
| unconsolidated affiliates | <u>(105,991)</u> | <u>(75,556)</u> | <u>(65,181)</u> |
| Total revenues | <u>\$ 898,404</u> | <u>\$ 854,106</u> | <u>\$ 758,942</u> |
| Operating Profit (Loss) | | | |
| Product sales | \$ 95,549 | \$ (2,495) | \$ 121,192 |
| Proprietary gaming | | | |
| Gaming operations | 106,521 | 83,024 | 80,152 |
| Earnings of unconsolidated affiliates | <u>84,331</u> | <u>61,360</u> | <u>53,791</u> |
| Total proprietary gaming | <u>190,852</u> | <u>144,384</u> | <u>133,943</u> |
| Total | 286,401 | 141,889 | 255,135 |
| Other non-allocated expense | <u>(41,414)</u> | <u>(40,496)</u> | <u>(20,603)</u> |
| Income Before Income Taxes and Extraordinary Item | <u>\$ 244,987</u> | <u>\$ 101,393</u> | <u>\$ 234,532</u> |
| Depreciation and Amortization | | | |
| Product sales | \$ 5,294 | \$ 5,681 | \$ 4,816 |
| Proprietary gaming | | | |
| Gaming operations | 28,196 | 31,812 | 21,043 |
| Earnings of unconsolidated affiliates | 12,640 | 10,351 | 7,513 |
| Corporate | <u>20,897</u> | <u>23,955</u> | <u>18,635</u> |
| Total | 67,027 | 71,799 | 52,007 |
| Less earnings of | | | |
| unconsolidated affiliates | <u>(12,640)</u> | <u>(10,351)</u> | <u>(7,513)</u> |
| Total depreciation and amortization | <u>\$ 54,387</u> | <u>\$ 61,448</u> | <u>\$ 44,494</u> |

Notes to Consolidated Financial Statements

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|---------------------------------------|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Assets | | | |
| Product sales | \$ 690,219 | \$ 700,684 | \$ 638,618 |
| Proprietary gaming | | | |
| Gaming operations | 580,469 | 544,968 | 722,834 |
| Earnings of unconsolidated affiliates | 70,601 | 49,996 | 32,015 |
| Corporate | <u>282,427</u> | <u>469,412</u> | <u>150,161</u> |
| Total assets | <u>\$1,623,716</u> | <u>\$1,765,060</u> | <u>\$1,543,628</u> |
| Additions to Long-Lived Assets | | | |
| Product sales | \$ 6,670 | \$ 6,591 | \$ 4,013 |
| Proprietary gaming | | | |
| Gaming operations | 34,765 | 48,641 | 35,789 |
| Earnings of unconsolidated affiliates | - | - | - |
| Corporate | <u>10,009</u> | <u>10,367</u> | <u>11,084</u> |
| Total additions to long-lived assets | <u>\$ 51,444</u> | <u>\$ 65,599</u> | <u>\$ 50,886</u> |

The table below presents information as to our operations by geographical regions as of and for the years ended:

| | September 30, 2000 | October 2, 1999 | September 30, 1998 |
|--|-----------------------|--------------------|-----------------------|
| <i>(Dollars in thousands)</i> | | | |
| Revenues | | | |
| Domestic | | | |
| Unaffiliated customers | \$ 764,035 | \$ 666,685 | \$ 634,695 |
| Inter-area transfers | 87,082 | 39,395 | 36,809 |
| International | | | |
| Unaffiliated customers | 240,360 | 262,977 | 189,428 |
| Inter-area transfers | 8,107 | 10,935 | 7,023 |
| Eliminations | <u>(95,189)</u> | <u>(50,330)</u> | <u>(43,832)</u> |
| Total | 1,004,395 | 929,662 | 824,123 |
| Less earnings of unconsolidated affiliates | <u>(105,991)</u> | <u>(75,556)</u> | <u>(65,181)</u> |
| Total revenues | <u>\$ 898,404</u> | <u>\$ 854,106</u> | <u>\$ 758,942</u> |
| Identifiable Assets | | | |
| Domestic | \$1,324,787 | \$1,420,827 | \$1,234,768 |
| International | <u>155,191</u> | <u>192,197</u> | <u>177,308</u> |
| Total identifiable assets | <u>\$1,479,978</u> | <u>\$1,613,024</u> | <u>\$1,412,076</u> |
| Additions to Long-Lived Assets | | | |
| Domestic | \$ 45,869 | \$ 58,137 | \$ 46,318 |
| International | <u>5,575</u> | <u>7,462</u> | <u>4,568</u> |
| Total additions to long-lived assets | <u>\$ 51,444</u> | <u>\$ 65,599</u> | <u>\$ 50,886</u> |

Notes to Consolidated Financial Statements

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

21. Selected Quarterly Financial Data (Unaudited)

| | First Qtr | Second Qtr | Third Qtr | Fourth Qtr |
|---|-----------|------------|-----------|------------|
| <i>(Dollars in thousands, except per share amount and stock prices)</i> | | | | |
| 2000 | | | | |
| Total revenues | \$185,651 | \$193,284 | \$236,030 | \$283,439 |
| Gross profit | 84,140 | 85,140 | 104,288 | 124,280 |
| Earnings of unconsolidated affiliates | 20,866 | 24,769 | 27,640 | 32,716 |
| Income from operations | 49,636 | 54,163 | 72,167 | 91,562 |
| Net income | 42,404 | 24,760 | 37,627 | 52,001 |
| Diluted earnings per share | \$ 0.49 | \$ 0.33 | \$ 0.51 | \$ 0.70 |
| Stock price | | | | |
| High | \$20.6250 | \$22.4375 | \$28.5625 | \$34.5000 |
| Low | \$17.5625 | \$17.4375 | \$20.2500 | \$26.8750 |
| 1999 | | | | |
| Total revenues | \$202,855 | \$203,083 | \$239,723 | \$208,445 |
| Gross profit | 77,468 | 83,435 | 99,625 | 85,133 |
| Earnings of unconsolidated affiliates | 18,851 | 17,788 | 19,136 | 19,781 |
| Income (loss) from operations | 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 | \$24.5000 | \$23.4375 | \$19.5000 | \$19.2500 |
| Low | \$16.5000 | \$14.3750 | \$14.6875 | \$16.1875 |

Notes to Consolidated Financial Statements

| | First Qtr | Second Qtr | Third Qtr | Fourth Qtr |
|---|-----------|------------|-----------|------------|
| <i>(Dollars in thousands, except per share amount and stock prices)</i> | | | | |
| 1998 | | | | |
| Total revenues | \$153,238 | \$166,362 | \$204,390 | \$234,952 |
| Gross profit | 64,027 | 73,670 | 88,362 | 95,018 |
| Earnings of unconsolidated affiliates | 11,773 | 15,728 | 18,592 | 19,088 |
| 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 | \$ 0.26 | \$ 0.31 | \$ 0.40 | \$ 0.37 |
| Stock price | | | | |
| High | \$26.8125 | \$26.1875 | \$28.5625 | \$28.8750 |
| Low | \$21.8750 | \$23.1875 | \$23.6250 | \$18.5000 |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Part III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

The information required by Items 10, 11, 12 and 13 is incorporated by reference from the Proxy Statement to be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year covered by this report.

Part IV

Item 14. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a)(1) Consolidated Financial Statements:

Reference is made to the Index to Financial Statements and Related Information under Item 8 in Part II hereof where these documents are listed.

(a)(2) Consolidated Financial Statement Schedule:

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| | | |
|----|-----------------------------------|----|
| II | Valuation and Qualifying Accounts | 73 |
|----|-----------------------------------|----|

Other financial statement schedules are either not required or the required information is included in the Consolidated Financial Statements or Notes thereto.

Parent Company Financial Statements - Financial Statements of the Registrant only are omitted under Rule 3-05 as modified by ASR 302.

(a)(3) Exhibits:

- 3.1 Articles of Incorporation of International Game Technology, as amended (incorporated by reference to Exhibit 3.1 to Registrants Report on Form 10-K for the year ended September 30, 1995).

- 3.2 Second Restated Code of Bylaws of International Game Technology, dated November 11, 1987 (incorporated by reference to Exhibit 3.2 to Registrants Report on Form 10-K for the year ended September 30, 1995).
- 4.1 Note Agreement for the 7.84% Senior Notes due September 1, 2004 (incorporated by reference to Exhibit 4.1 to Registrant's Report on Form 10-K for the year ended September 30, 1995).
- 4.2 Indenture, dated as of May 19, 1999 by and between International Game Technology and The Bank of New York (incorporated by reference to Exhibit 4.2 to Registration Statement No. 333-81257, Form S-4 filed by Registrant).
- 4.3 Registration Rights Agreement, dated as of May 11, 1999, by and among International Game Technology, Salomon Smith Barney Inc., BNY Capital Markets, Inc., Goldman, Sachs & Co., Lehman Brothers Inc. and Merrill Lynch, Pierce, Fenner & Smith, Incorporated (incorporated by reference to Exhibit 4.3 to Registration Statement No. 333-81257, Form S-4 filed by Registrant).
- 10.1 Stock Option Plan for Key Employees of International Game Technology, as amended (incorporated by reference to Exhibit 10.26 to Registration Statement No. 33-12610 filed by Registrant).
- 10.2 Employee Stock Purchase Plan (incorporated by reference to Exhibit A to the Proxy Statement for the 1998 Annual Meeting of Shareholders).
- 10.3 Employment Agreement with Robert A. Bittman, Executive Vice President, Product Development dated March 12, 1996 (incorporated by reference to Exhibit 10.9 to Registrants Report on Form 10-K for the year ended September 30, 1996).
- 10.4 Form of officers and directors indemnification agreement (incorporated by reference to Exhibit 10.10 to Registrants Report on Form 10-K for the year ended September 30, 1996).
- 10.5 Credit Agreement by and among International Game Technology and the Bank of New York, Wells Fargo and other banks, dated May 22, 1997 (incorporated by reference to Exhibit 10.11 to Registrant's Report on Form 10-Q for the quarter ended June 30, 1997).
- 10.5A Amendment No. 1 to Credit Agreement by and among International Game Technology, The Bank of New York, Wells Fargo and other banks, dated August 19, 1997 (incorporated by reference to Exhibit 10.7A to Registration Statement No. 333-81257, Form S-4 filed by Registrant).
- 10.5B Amendment No. 2 to Credit Agreement by and among International Game Technology, The Bank of New York, Wells Fargo and other banks, dated January 16, 1998 (incorporated by reference to Exhibit 10.7B to Registration Statement No. 333-81257, Form S-4 filed by Registrant).
- 10.5C Amendment No. 3 to Credit Agreement by and among International Game Technology, The Bank of New York, Wells Fargo and other banks, dated April 20, 1999 (incorporated by reference to Exhibit 10.7C to Registration Statement No. 333-81257, Form S-4 filed by Registrant).
- 10.5D Amendment and Restatement of Credit Agreement by and among International Game Technology, The Bank of New York, Wells Fargo and other banks, dated April 30, 1999 (incorporated by reference to Exhibit 10.7D to Registration Statement No. 333-81257, Form S-4 filed by Registrant).

- 10.6 Facility Agreement between I.G.T. (Australia) Pty. Limited and National Australia Bank Limited, dated March 18, 1998; guarantee from International Game Technology to National Australia Bank Limited, dated March 18, 1998 (incorporated by reference to Exhibit 10.9 to Registrant's Report on Form 10-Q for the quarter ended March 31, 1998).
- 10.7 Joint Venture Agreement, dated December 3, 1996 by and between International Game Technology and Anchor Games, a d.b.a. of Anchor Coin (incorporated by reference to Exhibit 10.10 to Registrant's Report on Form 10-K for the year ended September 30, 1998).
- 10.8 IGT Profit Sharing Plan (As Amended and Restated as of December 31, 1998) (incorporated by reference to Exhibit 10.11 to Registrant's Report on Form 10-Q for the quarter ended April 3, 1999).
- 10.9 Agreement and Plan of Merger, dated March 10, 1999, among International Game Technology, SAC, Inc. and Sodak Gaming, Inc. (incorporated by reference to Registrant's Report on Form 8-K dated March 12, 1999).
- 10.10 Amendment Notes between Silver Club and CMS-El Capitan and International Game Technology dated November 5, 1999. (incorporated in reference to Exhibit 10.12 to Registrant's Report on Form 10-K for the year ended October 2, 1999)
- 10.11 Barcrest Savings Related Share Option Scheme (incorporated by reference to Registration Statement No. 333-94349, Form S-8 filed by Registrant on January 10, 2000).
- 10.12 IGT Deferred Compensation Plan
- 10.13 Employment Agreement with G. Thomas Baker, Chief Executive Officer, President, and Chief Operating Officer dated December 6, 2000.
- 10.14 International Game Technology 1993 Stock Option Plan (Amended and Restated Effective as of August 27, 1996) (Composite Plan Document Incorporating Amendments 1998-I and 1998-II)

- 21 Subsidiaries
- 23 Independent Auditors' Consent
- 24 Power of Attorney (see page 72 hereof)
- 27 Financial data schedule
- (b) Reports on Form 8-K
None

- 99.1 Financial statements of Spin for Cash Wide Area Progressive Joint Venture for the years ended September 30, 2000, 1999 and 1998.

SCHEDULE II - Consolidated Valuation and Qualifying Accounts

| | Balance at Beginning of Period | Provisions | Increase (Decrease) in Unrealized Gains | Balance at End of Period |
|--|--------------------------------------|-------------|---|--------------------------------|
| <i>(Dollars in thousands)</i> | | | | |
| Valuation Allowance on Investment Securities: | | | | |
| Year ended 09/30/98 | <u>\$ 1,265</u> | <u>\$ —</u> | <u>\$ 788</u> | <u>\$ 2,053</u> |
| Year ended 10/02/99 | <u>\$ 2,053</u> | <u>\$ —</u> | <u>\$ (3,600)</u> | <u>\$ (1,547)</u> |
| Year ended 09/30/00 | <u>\$(1,547)</u> | <u>\$ —</u> | <u>\$ 613</u> | <u>\$ (934)</u> |

| | Balance at Beginning of Period | Provisions | Recoveries and Reclassifications | Accounts Written Off | Balance at End of Period |
|---|--------------------------------------|-----------------|--|----------------------------|--------------------------------|
| <i>(Dollars in thousands)</i> | | | | | |
| Allowance for Doubtful Accounts: | | | | | |
| Year ended 09/30/98 | <u>\$ 5,899</u> | <u>\$ 927</u> | <u>\$ 351</u> | <u>\$ 1,665</u> | <u>\$ 5,512</u> |
| Year ended 10/02/99 | <u>\$ 5,512</u> | <u>\$ 3,959</u> | <u>\$ 6</u> | <u>\$ 573</u> | <u>\$ 8,904</u> |
| Year ended 09/30/00 | <u>\$ 8,904</u> | <u>\$ 1,902</u> | <u>\$ 10,418</u> | <u>\$ 7,393</u> | <u>\$ 13,831</u> |

Allowance for Doubtful Notes and Contracts Receivable:

| | | | | | |
|---------------------|------------------|-----------------|------------------|-----------------|------------------|
| Year ended 09/30/98 | <u>\$ 18,229</u> | <u>\$ 3,808</u> | <u>\$ 246</u> | <u>\$ 5,555</u> | <u>\$ 16,728</u> |
| Year ended 10/02/99 | <u>\$ 16,728</u> | <u>\$ 4,194</u> | <u>\$ 291</u> | <u>\$ 1,559</u> | <u>\$ 19,654</u> |
| Year ended 09/30/00 | <u>\$ 19,654</u> | <u>\$ 8,251</u> | <u>\$(5,605)</u> | <u>\$ 4,267</u> | <u>\$ 18,033</u> |

| | Balance at Beginning of Period | Provisions | Disposed of and Written Off | Balance at End of Period |
|------------------------------------|--------------------------------------|------------------|-----------------------------------|--------------------------------|
| <i>(Dollars in thousands)</i> | | | | |
| Obsolete Inventory Reserve: | | | | |
| Year ended 09/30/98 | <u>\$ 14,881</u> | <u>\$ 9,173</u> | <u>\$ 5,480</u> | <u>\$ 18,574</u> |
| Year ended 10/02/99 | <u>\$ 18,574</u> | <u>\$ 19,185</u> | <u>\$ 13,858</u> | <u>\$ 23,901</u> |
| Year ended 09/30/00 | <u>\$ 23,901</u> | <u>\$ 16,001</u> | <u>\$ 15,598</u> | <u>\$ 24,304</u> |