FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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FILER

INTERNATIONAL GAME TECHNOLOGY
CIK:**353944**| IRS No.: **880173041** | State of Incorp.:**NV** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **001-10684** | Film No.: **1697572**
SIC: **3990** Miscellaneous manufacturing industries

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ending: June 30, 2001

OR

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

For the transition period from _____ to_____

Commission File Number 001-10684

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

Nevada	88-0173041
(State of Incorporation)	(IRS Employer Identification No.)

9295 Prototype Drive, Reno, Nevada 89511
(Address of principal executive offices)

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

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 X No
- -----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 28, 2001
Common Stock par value $.000625 per share	74,912,476

International Game Technology
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Part I - Financial Information

Part II - Other Information

Part I - Financial Information

Item 1. Financial Statements

General

The following unaudited condensed consolidated financial statements were prepared by International Game Technology (referred throughout this document, together with its consolidated subsidiaries where appropriate, as IGT, Company, we, our, and us) and include all normal adjustments considered necessary to present fairly the financial position for the interim periods. These adjustments are of a normal recurring nature. These financial statements and notes are presented as permitted by the instructions to Form 10-Q and therefore do not contain certain information included in our audited consolidated financial statements and notes for the year ended September 30, 2000. Operating results for current periods do not necessarily indicate the results that may be expected for the fiscal year ending September 29, 2001.

You should read these financial statements along with the financial statements, accounting policies and notes included in our Annual Report on Amended Form 10-K/A for the fiscal year ended September 30, 2000. We believe that the disclosures in this document are adequate to make the information presented not misleading. Certain amounts in the unaudited condensed consolidated financial statements presented for the prior year comparable periods 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 our 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 our 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.

Included in this document are the following trademarks, service marks, and/or federally registered trademarks of International Game Technology or its wholly-owned subsidiaries: EZ Pay, TITO and MegaJackpots.

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 as follows: "The Addams Family"(TM) is developed under agreement with Monaco Entertainment Corporation; "Jeopardy!"(R) is a registered trademark of Jeopardy Productions, Inc.; "Wheel of Fortune"(R) is a registered trademark of Califon Productions, Inc.; "$1,000,000 Pyramid "(TM) and "I Dream of Jeannie" (TM) are trademarks of CPT Holdings, Inc.; "Austin Powers"(TM) New Line Productions, Inc. All rights reserved; "The Price is Right" (TM) is a trademark of Pearson Television Operations BV. Licensed by Pearson Television Worldwide Licensing.

Condensed Consolidated Statements of Income
<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
(Amounts in thousands, except per share amounts)				

<S> <C> <C> <C> <C>

Revenues				
Product sales	$ 222,715	$ 166,728	$ 636,222	$ 395,144
Gaming operations	97,419	69,302	267,086	219,822
Total revenues	320,134	236,030	903,308	614,966
Costs and Expenses				
Cost of product sales	135,446	101,495	385,350	244,978
Cost of gaming operations	47,177	30,247	122,537	96,418
Selling, general and administrative	47,943	38,218	134,789	106,927
Depreciation and amortization	5,131	5,210	14,675	15,858
Research and development	15,026	12,874	44,590	39,580
Provision for bad debts	4,621	4,009	14,926	7,284
Impairment of assets and restructuring	-	(550)	(1,100)	1,229
Total costs and expenses	255,344	191,503	715,767	512,274
Earnings of Unconsolidated Affiliates	38,584	27,640	104,049	73,274
Income from Operations	103,374	72,167	291,590	175,966
Other Income (Expense)				
Interest income	11,707	11,682	36,124	38,787
Interest expense	(25,843)	(25,618)	(76,326)	(76,532)
Gain (loss) on the sale of assets	(20)	1,052	445	280
Other	811	(491)	(303)	25,235
Other income (expense), net	(13,345)	(13,375)	(40,060)	(12,230)
Income Before Income Taxes	90,029	58,792	251,530	163,736
Provision for Income Taxes	33,311	21,165	93,066	58,944
Net Income	$ 56,718	$ 37,627	$ 158,464	$ 104,792
Basic Earnings Per Share	$ 0.76	$ 0.52	$ 2.16	$ 1.34
Diluted Earnings Per Share	$ 0.73	$ 0.51	$ 2.07	$ 1.33
Weighted Average Common Shares Outstanding	74,297	72,212	73,523	77,953
Weighted Average Common and Potential Shares Outstanding	77,232	73,718	76,390	79,014

</TABLE>

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

Condensed Consolidated Balance Sheets

<TABLE>
<CAPTION>

(Dollars in thousands)	June 30, 2001	September 30, 2000
<S>	<C>	<C>
Assets		
Current assets		
Cash and cash equivalents	$ 276,458	$ 244,907
Investment securities at market value	10,075	21,473
Accounts receivable, net of allowances for doubtful accounts of $15,323 and $13,831	260,623	219,948
Current maturities of long-term notes and contracts receivable, net of allowances	78,335	76,320
Inventories, net of allowances for obsolescence of $30,025 and $24,304:		
Raw materials	86,727	98,081
Work-in-process	5,191	4,593
Finished goods	85,907	44,315
Total inventories	177,825	146,989

Investments to fund liabilities to jackpot winners	28,829	27,939
Deferred income taxes	32,598	29,086
Prepaid expenses and other	66,955	47,564
Total Current Assets	931,698	814,226
Long-term notes and contracts receivable, net of allowances and current maturities	99,539	76,888
Property, plant and equipment, at cost		
Land	19,869	19,889
Buildings	75,883	75,891
Gaming operations equipment	115,463	87,918
Manufacturing machinery and equipment	130,909	121,512
Leasehold improvements	5,143	4,996
Total	347,267	310,206
Less accumulated depreciation and amortization	(157,525)	(143,297)
Property, plant and equipment, net	189,742	166,909
Investments to fund liabilities to jackpot winners	232,243	229,726
Deferred income taxes	133,028	97,670
Intangible assets	172,774	143,738
Investments in unconsolidated affiliates	77,877	70,601
Other assets	35,643	23,958
Total Assets	$ 1,872,544	$ 1,623,716

</TABLE>

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

Condensed Consolidated Balance Sheets
<TABLE>
<CAPTION>

(Dollars in thousands)	June 30, 2001	September 30, 2000
<S>	<C>	<C>
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term notes payable	$ 5,334	$ 4,621
Accounts payable	63,371	76,387
Jackpot liabilities	79,474	55,942
Accrued employee benefit plan liabilities	33,039	31,425
Accrued interest	10,763	31,369
Other accrued liabilities	90,695	59,249
Total Current Liabilities	282,676	258,993
Long-term notes payable and capital lease obligations, net of current maturities	992,372	991,507
Long-term jackpot liabilities	259,808	267,985
Other liabilities	13,293	8,646
Total Liabilities	1,548,149	1,527,131
Commitments and contingencies	-	-
Stockholders' equity		
Common stock, $.000625 par value; 320,000,000 shares authorized; 156,074,952 and 153,739,686 shares issued	98	96
Additional paid-in capital	349,307	278,825
Retained earnings	1,201,648	1,043,184
Treasury stock; 81,175,767 and 81,170,767 shares, at cost	(1,215,707)	(1,215,707)
Accumulated other comprehensive loss	(10,951)	(9,813)
Total Stockholders' Equity	324,395	96,585
Total Liabilities and Stockholders' Equity	$ 1,872,544	$ 1,623,716

</TABLE>

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

Condensed Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

(Dollars in thousands)	Nine Months Ended June 30, 2001	Nine Months Ended July 1, 2000
Cash Flows from Operating Activities		
Net income	$ 158,464	$ 104,792
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,306	41,454
Amortization of discounts and deferred offering costs	1,976	1,824
Provision for bad debts	14,926	7,284
Provision for inventory obsolescence	17,967	13,037
Loss on investment securities and fixed assets	(445)	(280)
Common stock awards	1,211	958
(Increase) decrease in operating assets and liabilities, net of acquisitions:		
Receivables	(42,309)	21,273
Inventories	(92,607)	(43,376)
Prepaid expenses and other	(22,982)	(30,307)
Other assets	(10,584)	629
Net accrued and deferred income taxes, net of tax benefit of employee stock plans	14,081	(9,324)
Decrease in accounts payable and accrued liabilities	(22,912)	(8,730)
Impairment of assets and restructuring charges (recoveries)	(1,100)	1,229
Earnings of unconsolidated affiliates in excess of distributions	(6,856)	(15,327)
Other	-	230
Total adjustments	(105,328)	(19,426)
Net cash provided by operating activities	53,136	85,366
Cash Flows from Investing Activities		
Investment in property, plant and equipment	(20,897)	(13,562)
Proceeds from sale of property, plant and equipment	982	1,067
Purchase of investment securities	-	(9,500)
Proceeds from sale of investment securities	12,377	12,670
Proceeds from investments to fund liabilities to jackpot winners	20,035	19,296
Purchase of investments to fund liabilities to jackpot winners	(23,435)	(17,070)
Cash advanced on loans receivable	(35,179)	(25,675)
Cash received on loans receivable	12,965	6,475
Proceeds from sale of other assets	-	41,914
Investment in unconsolidated affiliates	(420)	(55)
Acquisition of businesses, net of cash acquired	(31,177)	-
Net cash provided by or (used in) investing activities	(64,749)	15,560

</TABLE>

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

Condensed Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

(Dollars in thousands)	Nine Months Ended June 30, 2001	Nine Months Ended July 1, 2000
Cash Flows from Financing Activities		
Principal payments on debt	(18,120)	(3,812)
Proceeds from long-term debt	5,093	12,008
Payments on jackpot liabilities	(50,687)	(85,867)
Collections from systems to fund jackpot liabilities	69,721	64,614
Proceeds from employee stock plans	36,749	9,745
Purchases of treasury stock	-	(318,473)

Net cash provided by (used in) financing activities	42,756	(321,785)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	408	(1,463)
Net Increase (Decrease) in Cash and Cash Equivalents	31,551	(222,322)
Cash and Cash Equivalents at:		
Beginning of Period	244,907	426,343
End of Period	$ 276,458	$ 204,021

</TABLE>

Supplemental Cash Flows Information
Certain non-cash investing and financing activities are not reflected in the consolidated statements of cash flows. Depreciation and amortization reflected on the statements of cash flows includes the amounts reflected on the face of the statements of income and depreciation and amortization that for income statement purposes is classified as a component of cost of product sales and cost of gaming operations.

<TABLE>
<CAPTION>

	Nine Months Ended	
	June 30, 2001	July 1, 2000
(Dollars in thousands)		
<S>	<C>	<C>
Non-cash transfers from inventory to property, plant, and equipment	$ 43,417	$ 10,607
Tax benefit of stock options and the employee stock purchase plan	32,524	1,434
Payments of interest	94,955	94,706
Payments for income taxes	86,467	85,254
Acquisitions:		
Fair value of assets acquired	53,359	-
Fair value of liabilities assumed	22,163	-

</TABLE>

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

Notes to Condensed Consolidated Financial Statements

1. Notes and Contracts Receivable

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

	June 30, 2001	September 30, 2000
(Dollars in thousands)		
Current	$ 16,953	$ 14,607
Long-term	9,436	3,426
	$ 26,389	$ 18,033

2. Concentrations of Credit Risk

The financial instruments that potentially subject IGT to concentrations of credit risk consist principally of cash and cash equivalents and accounts, contracts, and notes receivable. IGT maintains cash and cash equivalents with various financial institutions in amounts which, at times, may be in excess of the FDIC insurance limits.

Product sales and the resulting receivables are concentrated in specific legalized gaming regions. We also distribute a portion of our products through third party distributors resulting in significant distributor receivables. Accounts, contracts, and notes receivable by region as a percentage of total receivables at June 30, 2001 were as follows:

Domestic Region	
Native American casinos	43%
Nevada	17%
Riverboats (greater Mississippi River area)	8%
Atlantic City (distributor and other)	7%
Other US regions (individually less than 3%)	9%
Total domestic	84%
International Region	
Europe	6%
Latin America	4%
Australia	4%
Other international	2%
Total international	16%
Total	100%

3 Intangible Assets

Intangible assets consist of the following:

(Dollars in thousands)	June 30, 2001	September 30, 2000
Intellectual property	$ 35,580	$ 1,650
Excess of cost over net assets acquired	147,148	148,631
	182,728	150,281
Less accumulated amortization	(9,954)	(6,543)
	$ 172,774	$ 143,738

During fiscal 2001, intangible assets increased by $33.9 million in connection with our acquisition of Silicon Gaming, Inc. (Silicon). See Note 10 for discussion.

4 Impairment of Assets and Restructuring Costs

IGT -Australia
In the fourth quarter of fiscal 1999, given the unfavorable operating results, poor product performance, loss of customer confidence and market share, personnel turnover and changes in the regulatory environment in Australia, we determined it necessary to re-evaluate the recoverability of the identifiable intangible assets and goodwill recorded in connection with IGT-Australia's March 1998 acquisition of Olympic Amusements Pty. Ltd. As a result of our review, we determined that the total unamortized balance of the identifiable intangible assets and goodwill was impaired and recorded a charge of $86.8 million. In an effort to return IGT-Australia to a profitable operation, we also developed a restructuring plan. In connection with the plan, in the fourth quarter of fiscal 1999 we recorded a total of $6.0 million in restructuring costs, composed 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 employee terminations. As of December 30, 2000 the restructuring plan for IGT-Australia was substantially complete. No additional charges were recorded in fiscal 2001. While we have been successful in returning IGT-Australia to profitability, we operate in a highly competitive and stringent regulatory environment.

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. Payments collected for receivables previously considered fully impaired totaled $1.1 million in the first nine months of fiscal 2001 and $1.9 million during all of fiscal 2000.

5. Earnings Per Share

The following table shows the reconciliation of basic earnings per share (EPS) to diluted EPS:
<TABLE>
<CAPTION>

(Amounts in thousands, except per share amounts)	Three Months Ended June 30, 2001	Three Months Ended July 1, 2000	Nine Months Ended June 30, 2001	Nine Months Ended July 1, 2000
<S>	<C>	<C>	<C>	<C>
Net income	$ 56,718	$ 37,627	$ 158,464	$ 104,792
Weighted average common shares outstanding	74,297	72,212	73,523	77,953
Dilutive effect of stock options outstanding	2,935	1,506	2,867	1,061
Weighted average common and potential shares outstanding	77,232	73,718	76,390	79,014
Basic earnings per share	$ 0.76	$ 0.52	$ 2.16	$ 1.34
Diluted earnings per share	$ 0.73	$ 0.51	$ 2.07	$ 1.33
Number of common shares excluded from diluted EPS because option exercise price was greater than average market price	7	64	60	764

</TABLE>

6. Income Taxes

Our provision for income taxes is based on estimated effective annual income tax rates. The provision differs from income taxes currently payable because certain items of income and expense are recognized in different periods for financial statement and tax return purposes.

7. Comprehensive Income

Items of other comprehensive income include cumulative foreign currency translation adjustments and net unrealized gains and losses on investment securities. Our total comprehensive income is as follows:
<TABLE>
<CAPTION>

(Dollars in thousands)	Three Months Ended June 30, 2001	Three Months Ended July 1, 2000	Nine Months Ended June 30, 2001	Nine Months Ended July 1, 2000
<S>	<C>	<C>	<C>	<C>
Net income	$ 56,718	$ 37,627	$158,464	$ 104,792
Net change in other comprehensive income	(2,494)	4,650	(1,138)	2,164
Comprehensive income	$ 54,224	$ 42,277	$157,326	$ 106,956

</TABLE>

8. 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.

Notes to Condensed Consolidated Financial Statements

Poulos
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. A hearing is scheduled for November 9, 2001 to consider pending motions and class certification.

Acres
In February 1999, the Spin for Cash Wide Area Progressive Joint Venture (Joint Venture), to which IGT and Anchor Gaming, Inc. (Anchor) are partners, and Anchor filed an action in US District Court, District of Nevada against Acres Gaming, Inc. (Acres). IGT is not a party to this action. The complaint alleges, among other things, infringement of certain secondary event patents owned by Anchor and licensed to the Joint Venture. In April 1999, Acres responded by filing an answer and counterclaim against the Joint Venture and Anchor. In addition, in April 1999, Acres filed an action in Oregon state circuit court against the Joint Venture and Anchor alleging wrongful use of Acres' intellectual property. The Oregon state circuit court action has been removed to the US District Court, District of Oregon, and has been stayed pending the outcome of the Nevada actions. Motions for Summary judgment have been filed by the parties.

9. 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.

There have been no material changes in the basis of measuring segment profit or in the amount of identifiable assets for any operating segment since our last annual report.

Notes to Condensed Consolidated Financial Statements

The table below presents information as to our operations by these lines of business as of:

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
(Dollars in thousands)				
<S>	<C>	<C>	<C>	<C>
Revenues				
Product sales	$ 222,715	$ 166,728	$ 636,222	$ 395,144
Proprietary gaming				
Gaming operations	97,419	69,302	267,086	219,822
Earnings of unconsolidated affiliates	38,584	27,640	104,049	73,274
Total proprietary gaming	136,003	96,942	371,135	293,096
Total	358,718	263,670	1,007,357	688,240
Less earnings of unconsolidated affiliates	(38,584)	(27,640)	(104,049)	(73,274)
Total revenues	$ 320,134	$ 236,030	$ 903,308	$ 614,966
Operating Profit				
Product sales	$ 46,181	$ 29,100	$ 127,169	$ 59,300
Proprietary gaming				
Gaming operations	32,859	25,130	96,716	73,132
Earnings of unconsolidated affiliates	31,806	22,420	85,521	57,676

Total proprietary gaming	64,665	47,550	182,237	130,808
Total	110,846	76,650	309,406	190,108
Other non-allocated expense	(20,817)	(17,858)	(57,876)	(26,372)
Income Before Income Taxes	$ 90,029	$ 58,792	$ 251,530	$ 163,736

</TABLE>

10. Acquisitions

Anchor
On July 8, 2001, IGT and Anchor Gaming (Anchor) entered into an Agreement and Plan of Merger. Anchor, which is headquartered in Las Vegas, is a global gaming company that operates gaming machines, gaming operations and gaming systems. The transaction will be accounted for as a purchase under the newly issued Statement of Financial Accounting Standards No. 141 (SFAS 141), "Business Combinations". The transaction will be a stock for stock exchange subject to a collar mechanism and IGT will assume indebtedness of approximately $430.0 million. Under the terms of the collar contained in the definitive agreement, each share of Anchor common stock will be converted into one share of IGT common stock subject to a collar from $50.00 to $75.00 per share. If IGT's share value exceeds $75.00, IGT will have the right to terminate the merger agreement, subject to Anchor's right to elect to accept a lower exchange ratio. If IGT's share value is less than $50.00, Anchor will have the right to terminate the merger agreement, subject to IGT's right to provide a higher exchange ratio. Share value means the average closing stock price for IGT's common stock as reported on the New York Stock Exchange during the 20 consecutive trading days ending on the third business day preceding the date of Anchor's shareholder meeting to vote on the merger, so long as the closing date occurs within five business days of the Anchor shareholder meeting or, if the closing date is more than five business days after the Anchor shareholder meeting, the date that is the third business day preceding the closing date.

At the close of this transaction, Thomas J. Mathews will join IGT as its Chief Operating Officer, as well as continuing as President and Chief Executive Officer of Anchor. Upon the completion of the merger, Mr. Mathews will be one of two new directors added to the IGT Board of Directors.

The business combination is expected to be completed in late 2001 or early 2002 conditioned upon regulatory approvals, shareholder approvals and other customary closing conditions.

Silicon
In March 2001, we completed the purchase of Silicon. Silicon, previously headquartered in Palo Alto, California, designed and manufactured innovative wagering products and held a library of game applications. Simultaneous to our purchase, Silicon sold all but 4.9% of its shares in its subsidiary, WagerWorks, Inc. The purchase method of accounting for business combinations was applied to this acquisition. The purchase price of $34.0 million was allocated to cash of $2.8 million and net assets of $31.2 million based on the estimated fair values of tangible and intangible assets and liabilities at the date of acquisition. There was no excess of the purchase price over the net assets acquired. The acquisition was funded with cash on hand. Subsequent to the acquisition, we paid off Silicon's long-term debt of $13.4 million. Results of Silicon subsequent to the closing of the acquisition are included in the results of operations. Intangible assets acquired from Silicon consist primarily of patent rights valued at $33.9 million to be amortized over their useful lives of 15 to 17 years.

11. Derivatives and Hedging Activities

IGT adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," on October 1, 2000. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

During the current period, IGT entered into forward exchange contracts to hedge our net exposure, by currency, related to the monetary assets and liabilities of our operations denominated in non-functional currency. These forward exchange contracts were not designated as hedging instruments under SFAS 133, and gains and losses were recognized in current earnings.

The adoption of SFAS 133 did not have a material impact on our financial condition or results of operations.

12. Reclassifications

Certain amounts in the unaudited condensed consolidated financial statements presented for the prior year comparable periods 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 our 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 our 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.

Notes to Condensed Consolidated Financial Statements

13. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued two new Statements of Financial Accounting Standards, No. 141 (SFAS 141), "Business Combinations" and No. 142 (SFAS 142), "Goodwill and Other Intangible Assets". Together these statements will change the accounting for business combinations and goodwill. SFAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. SFAS 142 changes the accounting for goodwill and indefinite lived intangible assets from an amortization method to an impairment only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of SFAS 142. Amortization will still be required for identifiable intangible assets with finite lives. We are required to adopt SFAS 142 at the beginning of IGT's fiscal 2003, but early adoption is permitted. We have not yet completed our analysis of the impact that SFAS 141 and SFAS 142 will have on our financial condition or results of operations.

14. Subsequent Events

In 1994, a lawsuit was filed in South Carolina (The Court of Common Pleas, 15th Judicial Circuit (No. 94-CP-26-3266)) against IGT by Collins Music Co. (Collins), a distributor for IGT in South Carolina. In the action Collins alleged that IGT agreed, but subsequently failed, to renew a Distributorship Agreement with Collins. Collins also alleged that equipment sold to it was not the latest IGT product available to the marketplace. IGT counterclaimed for the unpaid invoices for machines delivered to Collins,for violations of the South Carolina Unfair Trade Practices Act, for breach of the Distributorship Agreement accompanied by fraudulent acts and denied all the other allegations. The jury trial in this matter began on July 23, 2001. On August 2, 2001, the jury found that IGT breached its agreement with Collins and awarded Collins $15.0 million in compensatory damages. IGT intends to file all appropriate post-trial motions and appeal the jury verdict and award. At this time, management is unable to predict or determine the final outcome of these proceedings.

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

Results of Operations

Three Months Ended June 30, 2001 Compared to the Three Months Ended July 1, 2000

Net income for the current quarter grew to $56.7 million or $0.73 per diluted share compared to net income in the prior year quarter of $37.6 million or $0.51 per diluted share.

Operating Income

Operating income grew 43% in the quarter just ended to a record $103.4 million or 32% of revenues compared to $72.2 million or 31% of revenues in the third quarter of last year. This improvement was attributable to our domestic revenue growth in product sales, gaming operations and earnings of unconsolidated affiliates, partially offset by higher operating expenses, as discussed below.

Revenues, Gross Profit Margins and Earnings of Unconsolidated Affiliates

Total revenues for the third quarter of fiscal 2001 increased to $320.1 million compared to $236.0 million in the third quarter of fiscal 2000, reflecting a 34%

increase in product sales and a 41% increase in game operations. This improvement was due to continued growth in our domestic revenues, which increased by 55% over the same quarter one year ago. Gross profit on total revenues for the current quarter increased 32% to $137.5 million compared to $104.3 million for the prior year quarter. This increase was attributable to increased profitability in both product sales and gaming operations.

Worldwide, IGT shipped 32,600 gaming machines for product sales of $222.7 million during the current quarter compared to 32,000 machines for $166.7 million in the same quarter last year. Total domestic shipments reached 18,100 units for the quarter, up 44% from 12,600 units in the year earlier quarter. Domestic replacement sales reached a record high of 10,500 machines during the quarter. Replacement demand continued to be driven by the combination of an aging installed base of gaming machines, our new video games, and the growing appeal of the new ticket-in/ticket-out (TITO(TM)) technology.

International shipments during the current quarter totaled 14,500 or 44% of total units versus 19,400 in the comparable prior year quarter. Sales in Japan improved over recent quarters to 3,400 units, but were still down from the third quarter of last year when we sold 8,000 pachisuro games. We expect low sales volume in Japan for the remainder of fiscal 2001. IGT-Australia sold 2,100 units this quarter compared to 1,200 units during the third quarter of fiscal 2000. While unit sales have increased, we continue to face regulatory and competitive challenges in the Australian market.

Gross profit on product sales for the quarter just ended grew to $87.3 million versus $65.2 million for the third quarter last year. Margin percentages remained constant at 39% of related revenues and were positively impacted by a higher proportion of domestic sales in the total product sales mix, partially offset by higher electronic component costs. We anticipate current reductions in the cost of these components should result in higher margins beginning the first quarter of fiscal 2002.

Revenues from gaming operations improved to $97.4 million in the third quarter compared to $69.3 million in the same quarter last year. Gross profit on gaming operations grew to $50.2 million for the current quarter from $39.1 million in the year earlier quarter. In the current quarter gaming operations margin percentages were negatively impacted by lower interest rates, which result in higher costs of funding jackpot payments, and additional costs related to our expanding portfolio of new game.

Earnings of unconsolidated affiliates, reported net of expenses for accounting purposes, grew 40% to $38.6 million from $27.6 million in the comparable prior year quarter.

Our continued growth in the proprietary gaming segment drove the gains in gaming operations revenue and earnings of unconsolidated affiliates. Notable game successes include The Addams Family (TM), Jeopardy!(R), and the joint venture games of Wheel of Fortune(R) and I Dream of Jeannie(TM). The rapid roll-out and player acceptance of the newest recurring revenue games Austin Powers(TM), The Price Is Right(TM), and $1,000,000 Pyramid(TM) also contributed to the overall growth in gaming operations revenue. The installed base of our proprietary gaming machines, including placement under joint ventures, grew by 2,500 units during the quarter, bringing the total installed base to 25,100 at June 30, 2001. The California market grew by 600 units during the quarter to 1,750 at the end of the current period.

Operating Expenses

Current quarter operating expenses totaled $72.7 million or 23% of total revenues compared to $59.8 million or 25% in the prior year quarter. Selling, general and administrative expenses increased $9.7 million due to additional legal and compliance costs, as well as variable incentives related to improved operating results. Depreciation and amortization expense, not included in cost of sales, remained constant over the same quarter last year. Research and development expenses increased $2.1 million to $15.0 million for the current quarter, due to new game development costs. Bad debt expense increased over the prior year quarter primarily as a result of increased sales.

Other Income and Expense

Other income and expense for the current quarter resulted in net expense of $13.3 million compared to $13.4 million in the prior year quarter. Operation of our progressive systems games resulted 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 consolidated tax rate increased to 37% from 36% in the year earlier quarter. We expect this tax rate to be in effect for the full fiscal year 2001.

Business Segments Operating Profit (See Note 9 of Notes to Condensed Consolidated Financial Statements)

IGT's operating profit by business segment reflects an appropriate allocation of operating expenses, interest income, and interest expense. Gaming operations and earnings from our joint venture operations are included in the proprietary gaming business segment.

Product sales operating profit for the quarter just ended improved to $46.2 million or 21% of related revenues compared to $29.1 million or 17% in the prior year quarter. This improvement was predominantly the result of increased sales volumes, partially offset by higher component costs and increased operating expenses.

In the third quarter of fiscal 2001, operating profit on the proprietary gaming segment increased $17.1 million or 36% to $64.7 million compared to the same quarter last year. This improvement resulted from the growth of the installed base and favorable player acceptance of our new proprietary games, partially offset by increased

costs of funding jackpots due to lower interest rates and additional costs related to our expanding portfolio of game themes.

Nine Months Ended June 30, 2001 Compared to the Nine Months Ended July 1, 2000

Net income for the first nine months of fiscal 2001 grew to $158.5 million or $2.07 per diluted share compared to income before one-time items in the prior year period of $89.2 million or $1.13 per diluted share. Several one-time items affected the prior year results. Net income for the first nine months of fiscal 2000 benefited from the receipt of a legal settlement of $27.0 million ($17.3 million net of tax), partially offset by restructuring charges of $1.2 million ($0.8 million, net of tax) related to our operations in Australia and Brazil, and a loss of $1.4 million ($900,000, net of tax) on the sale of the gaming systems business unit previously purchased as a part of the Olympic acquisition in March 1998. Including these one-time items, net income was $104.8 million or $1.33 per diluted share for the first nine months of fiscal 2000.

Operating Income

For the nine months just ended, operating income reached $291.6 million or 32% of revenues compared to $176.0 million or 29% of revenues in the first nine months of fiscal 2000. This 66% growth was due to markedly higher domestic volumes, partially offset by higher operating expenses, as discussed below.

Revenues, Gross Profit Margins and Earnings of Unconsolidated Affiliates

Total revenues for the first nine months of fiscal 2001 grew 47% to $903.3 million compared to $615.0 million in the first nine months of fiscal 2000, reflecting a 61% increase in product sales and a 22% increase in gaming operations. Domestic revenues showed a marked increase of 63% over the prior year period. Gross profit on total revenues for the first nine months of fiscal 2001 increased 45% to $395.4 million compared to $273.6 million for the first nine months of fiscal 2000. This improvement was attributable to growth in profitability year-over-year for both product sales and gaming operations.

Worldwide, IGT shipped 93,000 gaming machines for record product sales of $636.2 million during the current nine months versus 74,300 machines and $395.1 million in the comparable prior year period. Domestic shipments increased 74% to 49,700 units for the first nine months of fiscal 2001 from 28,600 units in the same period last year. This increase was primarily due to continued strong growth in replacement demand, driven by the combination of an aging installed base of gaming machines, our expanding suite of new video games, and the growing appeal of the new TITO(TM) technology. At the end of the current period, approximately 14,500 machines were operating on IGT's TITO(TM) systems. Domestic replacement units increased to 57% of total shipments from 45% for the same period last year. Year-to-date sales of 11,000 machines into the California Native American market also contributed to the increase.

International shipments, comprising 47% of total units sold during the current nine months, totaled 43,300 units versus 45,700 units in the comparable prior year period. This decline related primarily to the drop in volumes in Japan offset by Australia.

The gross profit margin on product sales grew to $250.9 million or 39% of related revenue in the current nine month period from $150.2 million or 38% in the comparable prior year period. This margin improvement is due to increased sales volumes, higher average prices related to a stronger mix of newer game products, and a higher proportion of domestic sales in the total product sales mix, partially offset by higher component costs and increased operating expenses.

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

Revenue from gaming operations for the first nine months of fiscal 2001 grew to $267.1 million from $219.8 million in the same prior year period. Gross profit on gaming operations increased to $144.5 million or 54% of related revenue for the nine months ended June 30, 2001 compared to $123.4 million or 56% in the year earlier period. Although gross profit dollars rose along with revenues, the margin percentage was negatively impacted in the current nine month period by lower interest rates, which increased the cost of funding jackpots, as well as additional costs related to our expanding portfolio of new game themes.

Earnings of unconsolidated affiliates, reported net of expenses for accounting purposes, grew 42% to $104.0 million in the nine months just ended from $73.3 million in the comparable prior year period.

Our continued growth in the proprietary gaming segment drove the gains in gaming operations revenue and earnings of unconsolidated affiliates. Games that contributed significantly to growth during the current period include The Addams Family (TM), Jeopardy!(R), and the joint venture games of Wheel of Fortune(R) and I Dream of Jeannie(TM). The roll-out and favorable player acceptance of the newest recurring revenue games Austin Powers(TM), The Price Is Right(TM), and $1,000,000 Pyramid(TM) also contributed to the overall growth in gaming operations revenue. The installed base of our proprietary gaming machines, including placement under joint ventures, grew by 7,400 units during the nine months just ended, bringing the total installed base to 25,100 at June 30, 2001. The California market, where play levels have been high, is becoming an important contributor to this growth. The installed base in California grew to 1,750 units at the end of the current period.

Operating Expenses

Current year-to-date operating expenses totaled $207.9 million or 23% of total revenues compared to $170.9 million or 28% in the comparable prior year period. Selling, general and administrative expenses increased $27.9 million due to additional legal and compliance costs, as well as variable incentive costs related to improved operating results. Depreciation and amortization expense, not included in cost of sales, decreased $1.2 million due to fully depreciated assets still in use. Research and development expenses increased $5.0 million to $44.6 million for the current nine months, primarily due to new game development costs. Bad debt expense increased $7.6 million over the prior year period as the result of increased sales volumes, as well as specific reserves related to international receivables.

Other Income and Expense

Other income and expense, net, for the current nine-month period resulted in net expense of $40.1 million compared to $12.2 million in the same period last year. The prior year period benefited from a $27.0 million legal settlement. Operation of our progressive systems games resulted 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 consolidated tax rate increased to 37% from 36% in the year earlier period. We expect this tax rate to be in effect for the full fiscal year 2001.

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

Business Segments Operating Profit (See Note 9 of Notes to Condensed Consolidated Financial Statements)

IGT's operating profit by business segment reflects an appropriate allocation of operating expenses, interest income, and interest expense. Gaming operations and earnings from our joint venture activities are included in the proprietary gaming segment.

Product sales operating profit for the nine months just ended grew to $127.2 million or 20% of related revenues compared to $59.3 million or 15% in the prior year period. This improvement is primarily due to an increase in sales volumes, partially offset by higher operating expenses as discussed above.

Operating profit for the proprietary gaming segment in the first nine months of fiscal 2001 totaled $182.2 million, an increase of $51.4 million or 39% over the same period last year. This improvement resulted from the growth of the installed base and favorable player acceptance of our new games, partially offset by increased costs of funding jackpots due to lower interest rates and additional costs related to our expanding portfolio of game themes.

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.

Credit Facilities

Our domestic and foreign borrowing facilities totaled $264.7 million at June 30, 2001. Of this amount, $4.8 million was drawn, $6.6 million was reserved for letters of credit, and the remaining $253.3 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 June 30, 2001, we were in compliance with all applicable covenants.

Summary of Cash Activities

In the first nine months of fiscal 2001, IGT's cash increased $31.6 million due to net cash provided by operating and financing activities, partially offset by net cash used in investing activities. Our main source of cash was $53.1 million from operations. The primary uses of cash consisted of $31.2 million for the acquisition of Silicon in March 2001 and $20.9 million invested in property, plant and equipment.

Our proprietary progressive systems provide cash from collections used to fund jackpot liabilities and from maturities of investments in US government securities purchased to fund future annual jackpot payments. Cash is used to make payments to winners for jackpot liabilities or to purchase US government securities. The purchase of and proceeds from these US government securities are classified as investing activities. Collections from systems to fund jackpot liabilities and payments on jackpot liabilities are classified as financing activities. Net cash flows from systems to fund jackpot liabilities represent differences between the growth in liabilities and the actual payments to the winners during the period. These activities provide net cash aof $15.6 million

in the first nine months of fiscal 2001 and used cash of $19.0 million in the comparable prior year period. Fluctuations occur based on the timing of the jackpots and the volume of playacross all of our MegaJackpots(TM) progressive systems.

Operating Activities: Cash provided by operating activities in the first nine months of fiscal 2001 totaled $53.1 million compared to $85.4 million for the first nine months of fiscal 2000. This decrease was due to higher working capital requirements to support higher sales volumes. The most significant fluctuations related to sales volumes and timing in receivables, inventories, prepaid expenses and accrued income taxes. The net increase in other assets relates to prepaid royalties.

Investing Activities: The primary use of investing cash for the current nine month period related to the acquisition of Silicon. See Note 10 of Notes to Condensed Consolidated Financial Statements. Use of cash from investing activities also included purchases of property, plant, and equipment totaling $20.9 million in the current nine month period compared to $13.6 million in the prior year period. This fluctuation is primarily due to capital expenditures to improve the productivity of operations, including a portion of which relates to updating our internal software systems with an enterprise resource planning (ERP)solution and software to support our engineering activities. The ERP project is expected to phase in over the next three years. Investing cash provided in the prior period was primarily due to proceeds from the sale of the Miss Marquette riverboat held for sale as part of the Sodak acquisition.

Financing Activities: The primary sources of cash in financing activities in the current period were collections from systems and proceeds from employee stock plans. The primary use of cash from financing activities in the prior year period related to stock repurchases.

Stock Repurchase Plan

Our Board of Directors originally authorized IGT's stock repurchase plan in October 1990. As of July 28, 2001, the remaining share repurchase authorization, as amended, totaled 10.8 million additional shares. No additional shares have been repurchased during the first ten months of fiscal 2001.

Recently Issued Accounting Standards

On June 30, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards for derivative instruments and hedging activities. IGT adopted FAS 133 on October 1, 2001 and it has not had a material impact on our financial condition or results of operations. See Note 11 of Notes to Condensed 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 and 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.

In June 2001, the Financial Accounting Standards Board issued two new Statements of Financial Accounting Standards, No. 141 (SFAS 141), "Business Combinations" and No. 142 (SFAS 142), "Goodwill and Other Intangible Assets". Together these statements will change the accounting for business combinations and goodwill. SFAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. SFAS 142 changes the accounting for goodwill

and indefinite lived intangible assets from an amortization method to an impairment only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of SFAS 142. Amortization will still be required for identifiable intangible assets with finite lives. We are required to adopt SFAS 142 at the beginning of IGT's fiscal 2003, but early adoption is permitted. We have not yet completed our analysis of the impact that SFAS 141 and SFAS 142 will have on our financial condition or 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 affected 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.

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

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

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

- a decline in demand for IGT's gaming products or reduction in the growth rate of new and existing markets;
- delays of scheduled openings of newly constructed or planned casinos;
- the effect of changes in economic conditions;
- a decline in public acceptance of gaming;
- unfavorable public referendums or anti-gaming legislation;
- unfavorable legislation affecting or directed at manufacturers or operators of gaming products and systems;
- delays in approvals from regulatory agencies;
- political and economic instability in developing 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;

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- a decline in the appeal of IGT's gaming products or an increase in the popularity of existing or new games of competitors;
- acceptance of new technology by our customers;
- 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;
- the loss of sublessors of 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;
- The risk that the proposed acquisition of Anchor Gaming may not occur as the merger is subject to stockholder and regulatory approval, and there is no assurance that these or all other closing conditions will be satisfied.

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

Item 3. Quantitative and Qualitative Disclosures 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. Although IGT is exposed to credit loss in the event of nonperformance by these counterparties, management believes that losses related to counterparty credit risk is not likely.

Foreign Currency Risk

We routinely use forward exchange contracts to hedge our net exposures, by currency, related to the monetary assets and liabilities of our operations denominated in non-functional currency. The primary business objective of this hedging program is to minimize the gains and losses resulting from exchange rate changes. At June 30, 2001, we had net foreign currency exposure of $48.2 million, of which $45.4 million was hedged with currency forward contracts. At September 30, 2000, we had net foreign currency exposure of $58.0 million hedged with $63.5 million in 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. There were no firm commitment hedges at the end of the current or prior year periods.

Given our foreign exchange position, a 10% 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.

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 approximately $1.5 million in the current period compared to $1.0 million in the prior year-to-date period. 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 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 in our proprietary gaming segment decreases when interest rates decline. We estimated that a 10% decline in interest rates would have impacted gaming operations gross profit by $4.5 million and earnings of unconsolidated affiliates by $2.0 million in the current nine month period versus $6.6 million and $2.1 million in the comparable prior year period. IGT currently does not manage this exposure with derivative financial instruments.

IGT grants customers extended payment terms under contracts of sale, secured by the equipment sold. These contracts are generally for terms of one to five years, with interest recognized at prevailing rates. Occasionally, IGT has provided loans to customers for purposes other than gaming equipment. Within our portfolio, we have

both fixed and variable rate notes and contracts receivable. If interest rates decreased by 10%, we estimated the interest income for the variable rate notes and contracts would be impacted by approximately $678,000 in the nine months ended June 30, 2001 and $370,000 in the nine months ended June 30, 2000. If interest rates increased by 10%, we estimated the fair market value of the fixed rate notes and contracts would have decreased by approximately $737,000 at June 30, 2001 and $1.2 million at September 30, 2000.

Our outstanding Senior Notes carry interest at fixed rates. If interest rates increased by 10%, we estimated the fair market value of these notes would have decreased approximately $34.4 million at June 30, 2001 and $40.1 million at September 30, 2000.

Part II - Other Information

Item 1. Legal Proceedings

(See Note 8 and 14 of Notes to Condensed Consolidated Financial Statements)

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

We want to remind stockholders that a stockholder proposal submitted pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 for inclusion in our proxy statement and form of proxy for the 2002 Annual Meeting of Stockholder must be received by us by September 29, 2001. Such a proposal must also comply with the requirements as to form and substance established by the Securities and Exchange Commission for such proposals. In addition, a stockholder desiring to present a proposal at the 2002 Annual Meeting must deliver written notice of the proposal to us prior to December 12, 2001 or the persons appointed as proxies in connection with the meeting will have discretionary authority to vote on the proposal.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Agreement and Plan of Merger, dated as of July 8, 2001, by and among International Game Technology, NAC Corporation, and Anchor Gaming (incorporated by reference to Exhibit 2 to Form 8-K/A, File number 001-10684, filing date July 12, 2001)

10.2 Voting Agreement, dated as of July 8, 2001, by and between International Game Technology and Thomas J. Matthews (incorporated by reference to Exhibit 10.1 to Form 8-K, File number 001-10684, filing date July 11, 2001)

10.3 Voting Agreement, dated as of July 8, 2001, by and between International Game Technology and Joseph Murphy (incorporated by reference to Exhibit 10.2 to Form 8-K, File number 001-10684, filing date July 11, 2001)

(b) Reports on Form 8-K

The company filed a Current Report on July 11, 2001 and an Amended Current Report on July 12, 2001 reporting the agreement to acquire Anchor Gaming.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 3, 2001

INTERNATIONAL GAME TECHNOLOGY

By: /s/ Maureen Mullarkey

Maureen Mullarkey
Senior Vice President and
Chief Financial Officer