

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **2001-08-03** | Period of Report: **2001-03-31**
SEC Accession No. **0000353944-01-500020**

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FILER

INTERNATIONAL GAME TECHNOLOGY

CIK: **353944** | IRS No.: **880173041** | State of Incorporation: **NV** | Fiscal Year End: **0930**
Type: **10-Q/A** | Act: **34** | File No.: **001-10684** | Film No.: **1697575**
SIC: **3990** Miscellaneous manufacturing industries

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

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

For the quarterly period ending: March 31, 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 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 April 28, 2001
Common Stock	-----
par value \$.000625 per share	73,986,618

International Game Technology
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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.

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, Big Brother, Diamond Cinema, Dollars Deluxe, Double Diamond 2000, Dynamite, EZ Pay, EZ Play, Fabulous 50's, Five Play Draw Poker, Game King, High Rollers, IGT Gaming System, IGS, iGame, iGame Plus, Integrated Voucher System, IVS, King Kebab, Little Green Men, Megabucks, MegaJackpots, Monedin Joker, Multi-Denomination, Multi-Hand Poker, Neon Nights, Nickelmania, Nickels, Nickels Deluxe, Party Time, Pokermania, Popper King, Psycho Cash Beast Club, Quartermania, Quarters Deluxe, S2000, Revolution, S-Plus, Security

Accounting Management System, SAMS, Slotopoly, Super Nickelmania, Super Vision, Texas Tea, 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"(TM) is developed under agreement with Monaco Entertainment Corporation; "Elvis, Elvis Presley, and King of Rock 'n' Roll" are registered trademarks of Elvis Presley Enterprises, Inc.; "Jeopardy!"(R) is a registered trademark of Jeopardy Productions, Inc.; "Wheel of Fortune"(R) is a registered trademark of Califon Productions, Inc.; "Regis' Cash Club" is a game developed in conjunction with Philbin Enterprises; "\$1,000,000 Pyramid "(TM) is a trademark of CPT Holdings, Inc.; "I Dream of Jeannie" (TM) is a trademark of CPT Holdings, Inc.; "The Three Stooges"(R), the characters, names and all related indicia are trademarks of C3 Entertainment, Inc.; " The Honeymooners"(TM) is a trademark used under license; "Let's Make A Deal"(R) 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" (TM) is a trademark of CBS Worldwide Inc.; "Lifestyles of the Rich and Famous"(TM) is a trademark of Rysher Entertainment, Inc.; "The Munsters" is a trademark of Universal Studios, licensed by Universal Studios Licensing, Inc.; "American Bandstand"(R) is a trademark of Dick Clark Productions, Inc.; "Wheel of Gold" and "Totem Pole" are federally registered trademarks of Anchor Gaming.

Condensed Consolidated Statements of Income

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	March 31, 2001	April 1, 2000	March 31, 2001	April 1, 2000
(Amounts in thousands, except per share amounts)				
<S>	<C>	<C>	<C>	<C>
Revenues				
Product sales	\$ 221,158	\$ 118,656	\$ 413,508	\$ 228,416
Gaming operations	91,587	74,628	169,666	150,519
Total revenues	312,745	193,284	583,174	378,935
Costs and Expenses				
Cost of product sales	134,700	75,283	249,903	143,483
Cost of gaming operations	41,304	32,861	75,360	66,173
Selling, general and administrative	47,247	35,740	86,845	68,709
Depreciation and amortization	4,676	5,252	9,545	10,648
Research and development	15,478	13,318	29,564	26,707
Provision for bad debts	4,553	1,436	10,305	3,275
Impairment of assets and restructuring	(600)	-	(1,100)	1,779
Total costs and expenses	247,358	163,890	460,422	320,774
Earnings of Unconsolidated Affiliates	34,163	24,769	65,465	45,635
Income from Operations	99,550	54,163	188,217	103,796
Other Income (Expense)				
Interest income	12,072	13,001	24,417	27,105
Interest expense	(25,379)	(25,621)	(50,484)	(50,914)
Gain (loss) on the sale of assets	356	(762)	465	(771)
Other	(1,590)	(2,094)	(1,113)	25,725
Other income (expense), net	(14,541)	(15,476)	(26,715)	1,145
Income Before Income Taxes	85,009	38,687	161,502	104,941
Provision for Income Taxes	31,453	13,927	59,755	37,779
Net Income	\$ 53,556	\$ 24,760	\$ 101,747	\$ 67,162

Basic Earnings Per Share	\$ 0.73	\$ 0.33	\$ 1.39	\$ 0.83
Diluted Earnings Per Share	\$ 0.70	\$ 0.33	\$ 1.34	\$ 0.82
Weighted Average Common Shares Outstanding	73,512	75,247	73,136	80,824
Weighted Average Common and Potential Shares Outstanding	76,414	76,048	76,009	81,614

</TABLE>

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

Condensed Consolidated Balance Sheets

<TABLE>

<CAPTION>

	March 31, 2001	September 30, 2000
(Dollars in thousands)		
<S>	<C>	<C>
Assets		
Current assets		
Cash and cash equivalents	\$ 214,773	\$ 244,907
Investment securities at market value	13,357	21,473
Accounts receivable, net of allowances for doubtful accounts of \$17,868 and \$13,831	248,152	219,948
Current maturities of long-term notes and contracts receivable, net of allowances	91,608	76,320
Inventories, net of allowances for obsolescence of \$29,100 and \$24,304:		
Raw materials	105,715	98,081
Work-in-process	4,117	4,593
Finished goods	76,404	44,315
Total inventories	186,236	146,989
Investments to fund liabilities to jackpot winners	28,481	27,939
Deferred income taxes	32,969	29,086
Prepaid expenses and other	59,862	47,564
Total Current Assets	875,438	814,226
Long-term notes and contracts receivable, net of allowances and current maturities	94,763	76,888
Property, plant and equipment, at cost		
Land	19,869	19,889
Buildings	75,940	75,891
Gaming operations equipment	106,376	87,918
Manufacturing machinery and equipment	125,625	121,512
Leasehold improvements	4,871	4,996
Total	332,681	310,206
Less accumulated depreciation and amortization	(153,143)	(143,297)
Property, plant and equipment, net	179,538	166,909
Investments to fund liabilities to jackpot winners	231,471	229,726
Deferred income taxes	124,595	97,670
Intangible assets	174,026	143,738
Other assets	111,734	94,559

Total Assets

\$ 1,791,565

\$ 1,623,716

</TABLE>

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

Condensed Consolidated Balance Sheets

<TABLE>

<CAPTION>

	March 31, 2001	September 30, 2000

(Dollars in thousands)		
<S>	<C>	<C>
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term notes payable	\$ 4,618	\$ 4,621
Accounts payable	71,339	76,387
Jackpot liabilities	75,118	55,942
Accrued employee benefit plan liabilities	22,541	31,425
Accrued interest	31,257	31,369
Other accrued liabilities	86,268	59,249
	-----	-----
Total Current Liabilities	291,141	258,993
Long-term notes payable and capital lease obligations, net of current maturities	992,078	991,507
Long-term jackpot liabilities	256,558	267,985
Other liabilities	18,143	8,646
	-----	-----
Total Liabilities	1,557,920	1,527,131
	-----	-----
Commitments and contingencies	-	-
Stockholders' equity		
Common stock, \$.000625 par value; 320,000,000 shares authorized; 154,932,744 and 153,739,686 shares issued	97	96
Additional paid-in capital	312,785	278,825
Retained earnings	1,144,927	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	(8,457)	(9,813)
	-----	-----
Total Stockholders' Equity	233,645	96,585
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 1,791,565	\$ 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>

	Six Months Ended	
	March 31, 2001	April 1, 2000

(Dollars in thousands)		

<S>	<C>	<C>
Cash Flows from Operating Activities		
Net income	\$ 101,747	\$ 67,162
	-----	-----
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,674	29,216
Amortization of discounts and deferred offering costs	1,304	1,205
Provision for bad debts	10,305	3,275
Provision for inventory obsolescence	12,464	9,247
Gain (loss) on investment securities and fixed assets	(465)	771
Common stock awards	1,140	639
(Increase) decrease in assets:		
Receivables	(46,417)	45,127
Inventories	(79,776)	(21,190)
Prepaid expenses and other	(12,630)	(17,118)
Other assets	(16,261)	(7,111)
Net accrued and deferred income taxes, net of tax benefit of employee stock plans	3,826	1,114
Decrease in accounts payable and accrued liabilities	(2,165)	(15,425)
Impairment of assets and restructuring charges (recoveries)	(1,100)	1,779
Earnings of unconsolidated affiliates (in excess of) less than distributions	735	(10,587)
Other	(4)	(112)
	-----	-----
Total adjustments	(101,370)	20,830
	-----	-----
Net cash provided by operating activities	377	87,992
	-----	-----
Cash Flows from Investing Activities		
Investment in property, plant and equipment	(12,243)	(5,736)
Proceeds from sale of property, plant and equipment	729	671
Purchase of investment securities	-	(9,500)
Proceeds from sale of investment securities	12,379	-
Proceeds from investments to fund liabilities to jackpot winners	12,849	12,337
Purchase of investments to fund liabilities to jackpot winners	(15,129)	(11,962)
Cash advanced on loans receivable	(23,541)	(18,769)
Cash received on loans receivable	8,668	1,903
Proceeds from sale of other assets	-	41,914
Investment in unconsolidated affiliates	(80)	(55)
Acquisition of businesses	(31,177)	-
	-----	-----
Net cash provided by (used in) investing activities	(47,545)	10,803
	-----	-----

</TABLE>

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

Condensed Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

	Six Months Ended	
	March 31, 2001	April 1, 2000
	-----	-----
(Dollars in thousands)		
<S>	<C>	<C>
Cash Flows from Financing Activities		
Principal payments on debt	(17,987)	(3,812)
Proceeds from long-term debt	4,335	2,442
Payments on jackpot liabilities	(35,341)	(61,526)
Collections from systems to fund jackpot liabilities	43,499	43,906
Proceeds from employee stock plans	19,495	4,562
Purchases of treasury stock	-	(318,460)
	-----	-----

Net cash provided by (used in) financing activities	14,001	(332,888)
	-----	-----
Effect of Exchange Rate Changes on Cash and Cash Equivalents	3,033	858
	-----	-----
Net Decrease in Cash and Cash Equivalents	(30,134)	(233,235)
Cash and Cash Equivalents at:		
Beginning of Period	244,907	426,343
	-----	-----
End of Period	\$ 214,773	\$ 193,108
	=====	=====

</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:

	March 31, 2001	September 30, 2000
	-----	-----
(Dollars in thousands)		
Current	\$ 17,084	\$ 14,607
Long-term	4,590	3,426
	-----	-----
	\$ 21,674	\$ 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 March 31, 2001 were as follows:

Domestic Region	
Native American casinos	45%
Nevada	24%
Atlantic City (distributor and other)	6%
Riverboats (greater Mississippi River area)	3%
Other US regions (individually less than 3%)	6%

Total domestic	84%

International Region	
Europe	6%
Latin America	5%
Australia	4%
Other international (individually less than 3%)	1%

Total international	16%

Total	100%
	=====

3 Intangible Assets

Intangible assets consist of the following:

	March 31, 2001	September 30, 2000

(Dollars in thousands)		
Intellectual property	\$ 35,312	\$ 1,650
Excess of cost over net assets acquired	147,163	148,631
	-----	-----
	182,475	150,281
Less accumulated amortization	(8,449)	(6,543)
	-----	-----
	\$ 174,026	\$ 143,738
	=====	=====

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 half 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>

	Three Months Ended		Six Months Ended	
	March 31, 2001	April 1, 2000	March 31, 2001	April 1, 2000

(Amounts in thousand, except per share amounts)				
<S>	<C>	<C>	<C>	<C>
Net income	\$ 53,556	\$ 24,760	\$ 101,747	\$ 67,162
	=====	=====	=====	=====

Weighted average common shares outstanding	73,512	75,247	73,136	80,824
Dilutive effect of stock options outstanding	2,902	801	2,873	790
	-----	-----	-----	-----
Weighted average common and potential shares outstanding	76,414	76,048	76,009	81,614
	=====	=====	=====	=====
Basic earnings per share	\$ 0.73	\$ 0.33	\$ 1.39	\$ 0.83
Diluted earnings per share	\$ 0.70	\$ 0.33	\$ 1.34	\$ 0.82
Number of common shares excluded from diluted EPS because option exercise price was greater than average market price	35	862	92	1,278

</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>

	Three Months Ended		Six Months Ended	
	March 31, 2001	April 1, 2000	March 31, 2001	April 1, 2000
(Dollars in thousands)				
<S>	<C>	<C>	<C>	<C>
Net income	\$ 53,556	\$ 24,760	\$ 101,747	\$ 67,162
Net change in other comprehensive income	(1,440)	(1,304)	1,356	(2,486)
Comprehensive income	\$ 52,116	\$ 23,456	\$ 103,103	\$ 64,676

</TABLE>

8. Supplemental 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 \$24.4 million during the current period and \$5.0 million during the comparable prior year period.

The tax benefit of stock options and the employee stock purchase plan totaled \$13.3 million for the six months ended March 31, 2001 and \$400,000 during the year earlier period.

Notes to Condensed Consolidated Financial Statements

Payments of interest were \$49.6 million for the first six months of fiscal 2001 and \$49.2 million for the first six months of fiscal 2000. Payments for income taxes were \$57.8 million for the six months ended March 31, 2001 and \$59.0 million for the same period last year.

During fiscal 2000, notes receivable increased by \$3.9 million as the result of converting our investment in Access Systems Pty., Ltd. from an equity to a debt instrument.

9. 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.

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. At this time, motions concerning class certification are pending before the Court.

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.

Notes to Condensed Consolidated Financial Statements

10. 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.

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

<TABLE>
<CAPTION>

Three Months Ended

Six Months Ended

	March 31, 2001	April 1, 2000	March 31, 2001	April 1, 2000
(Dollars in thousands)				
<S>	<C>	<C>	<C>	<C>
Revenues				
Product sales	\$ 221,158	\$ 118,656	\$ 413,508	\$ 228,416
Proprietary gaming				
Gaming operations	91,587	74,628	169,666	150,519
Earnings of unconsolidated affiliates	34,163	24,769	65,465	45,635
Total proprietary gaming	125,750	99,397	235,131	196,154
Total	346,908	218,053	648,639	424,570
Less earnings of unconsolidated affiliates	(34,163)	(24,769)	(65,465)	(45,635)
Total revenues	\$ 312,745	\$ 193,284	\$ 538,174	\$ 378,935
Operating Profit				
Product sales	\$ 42,268	\$ 14,316	\$ 80,973	\$ 30,200
Proprietary gaming				
Gaming operations	34,337	23,861	63,857	47,879
Earnings of unconsolidated affiliates	27,986	19,062	53,716	35,379
Total proprietary gaming	62,323	42,923	117,573	83,258
Total	104,591	57,239	198,546	113,458
Other non-allocated expense	(19,582)	(18,552)	(37,044)	(8,517)
Income Before Income Taxes	\$ 85,009	\$ 38,687	\$ 161,502	\$ 104,941

</TABLE>

11. Acquisitions

In March 2001, we completed the purchase of Silicon Gaming, Inc. (Silicon). Silicon, previously headquartered in Palo Alto, California, designs and manufactures a full line of innovative wagering products and holds an extensive 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

Notes to Condensed Consolidated Financial Statements

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 patents valued at \$33.7 million to be amortized over their useful lives of 15 to 17 years.

12. Derivatives and Hedging Activities

IGT adopted Statement of Financial Accounting Standard 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 six months ended March 31, 2001, 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.

13. 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.

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

Results of Operations

Three Months Ended March 31, 2001 Compared to the Three Months Ended April 1, 2000

Net income for the current quarter grew to a new quarterly record of \$53.6 million or \$0.70 per diluted share compared to net income before one-time items in the prior year quarter of \$25.7 million or \$0.34 per diluted share. The prior year net income of \$24.8 million or \$0.33 per diluted share included 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 acquisition of Olympic Amusements Pty. Limited in March 1998.

Operating Income

Operating income grew 84% to \$99.6 million or 32% of revenues for the quarter just ended compared to \$54.2 million or 28% of revenues in the second quarter of fiscal 2000. This improvement was due to markedly higher volumes and improved operating efficiencies, partially offset by higher operating expenses, as discussed below.

Revenue, Gross Profit Margins and Earnings of Unconsolidated Affiliates

Total revenues for the second quarter of fiscal 2001 grew to \$312.7 million compared to \$193.3 million in the second quarter of fiscal 2000, reflecting an 86% increase in product sales revenue and a 23% increase in game operations revenue. Domestic revenues experienced significant improvement, increasing by 85% over the same quarter one year ago. Gross profit on total revenues for the current quarter increased 61% to \$136.7 million compared to \$85.1 million for the prior year quarter. This positive movement was attributable to increased profitability in both product sales and gaming operations.

Worldwide, IGT shipped 30,400 gaming machines for product sales of \$221.2 million during the current quarter versus 22,700 machines and \$118.7 million in the same quarter last year. Domestic shipments increased 117% to 16,500 units for the current quarter from 7,600 units in the year earlier quarter. This increase is due to strong replacement demand and continued growth in the Native American markets, especially California. Sales to Native American markets increased to 7,700 units in the current quarter compared to 1,700 units in the year earlier quarter. The current quarter included 5,700 machines shipped to various Native American venues in California. Replacement demand is driven by an aging installed base of gaming machines, the popularity of IGT's new video reel game offerings, and the appeal of the new ticket-in/ticket-out voucher technology, which offers an alternative payout and vouchering solution to casino operators.

International shipments during the current quarter totaled 13,800 or 45% of total units compared to 15,100 units in the comparable prior year quarter. IGT-Australia continued its recent improved performance shipping 2,100 machines in the current quarter, an increase of 110% over the year earlier quarter.

Barcrest sold 9,500 units during the second quarter of fiscal 2001 compared to 11,900 in the same quarter last year. The prior year second quarter was a record for Barcrest with over 3,300 units sold into the Spanish market.

Gross profit on product sales for the second quarter of fiscal 2001 increased to \$86.5 million or 39% of related revenues compared to \$43.4 million or 37% for the second quarter of fiscal 2000. This margin improvement is attributable to the increased sales volumes, higher average pricing related to a stronger mix of new video and voucher products, and a higher proportion of domestic sales in the total product sales mix.

Revenues from gaming operations for the second quarter improved 23% to \$91.6 million compared to \$74.6 million in the same quarter last year. The gross profit on gaming operations, excluding joint ventures, increased 20% to \$50.3 million for the current quarter from \$41.8 million in the comparable prior year quarter. The gross profit margins on gaming operations were 55% and 56% of related

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

revenues in the second quarter of the current and prior fiscal year periods. The current quarter margin percentage was negatively impacted by lower interest rates which increased the cost of funding jackpots.

Earnings of unconsolidated affiliates, reported net of expenses for accounting purposes, grew 38% to \$34.2 million from \$24.8 million in the comparable prior year quarter.

The continued growth in the proprietary gaming segment reflects excellent player acceptance of IGT's new game themes, including the The Addams Family (TM) and Jeopardy!(R) Video. Another major factor in this growth is the continued rollout of many of our new and legacy MegaJackpots(TM) game themes into the expanding California market. The California installed base of MegaJackpots(TM) gaming machines doubled to nearly 1,200 units during the current quarter. Our joint venture activities contributed significantly to the growth in the proprietary gaming segments, with approximately 13,000 Wheel of Fortune(R) and I Dream of Jeannie(TM) Wheel games installed at the end of the current quarter. The total installed base of our MegaJackpots(TM) machines, including placement under joint ventures, totaled 22,600 units at the end of the current quarter compared to 16,800 at the end of the prior year quarter.

Operating Expenses

Current quarter operating expenses totaled \$71.4 million or 23% of total revenues compared to \$55.7 million or 29% in the prior year quarter. Selling, general and administrative expenses increased \$11.5 million due to additional legal and compliance costs, as well as variable commission and incentive costs related to higher sales volumes. Depreciation and amortization expense, not included in cost of sales, decreased \$576,000 due to fully depreciated assets still in use. Research and development expenses increased \$2.2 million to \$15.5 million for the current quarter, primarily due to new game development costs. Bad debt expense increased \$3.1 million over the prior year quarter as a result of increased sales volumes.

Other Income and Expense

Other income and expense for the current quarter resulted in net expense of \$14.5 million compared to \$15.5 million in the prior year quarter. Operation of our progressive gaming 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 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 10 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 quarter just ended improved to \$42.3 million or 19% of related revenues compared to \$14.3 million or 12% in the prior year quarter, predominantly as the result of increased sales volumes, partially offset by higher operating expenses as discussed above.

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

In the second quarter of fiscal 2001, operating profit of the proprietary gaming segment totaled \$62.3 million, an increase of \$19.4 million or 45% over the same quarter last year. This improvement resulted from the growth of the installed base and excellent player acceptance of our new proprietary games, partially offset by lower interest rates which increased the cost of funding jackpots.

Six Months Ended March 31, 2001 Compared to the Six Months Ended April 1, 2000

Net income for the first half of fiscal 2001 grew to \$101.7 million or a record \$1.34 per diluted share compared to income before one-time items in the prior year period of \$52.0 million or \$0.64 per diluted share. Several one-time items affected the prior year results. In the second quarter of fiscal 2000, we recognized 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 acquisition of Olympic Amusements Pty. Limited in March 1998. Net income for the first six months of fiscal 2000 benefited from receipt of a legal settlement of \$27.0 million (\$17.3 million net of tax), partially offset by restructuring charges of \$1.8 million (\$1.2 million, net of tax) related to our Australian operations. Including these one-time items, net income was \$67.2 million or \$0.82 per diluted share for the first half of fiscal 2000.

Operating Income

For the six months just ended, operating income grew 81% to \$188.2 million or 32% of revenues compared to \$103.8 million or 27% of revenues in the first six months of fiscal 2000. This improvement was due to markedly higher volumes and improved operating efficiencies, partially offset by higher operating expenses, as discussed below.

Revenues, Gross Profit Margins and Earnings from Unconsolidated Affiliates

Total revenues for the first six months of fiscal 2001 grew 54% to \$583.2 million compared to \$378.9 million in the first six months of fiscal 2000, reflecting a 81% increase in product sales revenue and a 13% increase in gaming operations revenue. Both domestic and international revenues experienced marked improvements over the same period one year ago. International revenues improved 13% and domestic revenues increased by 69%. Gross profit on total revenues for the first six months of fiscal 2001 increased 52% to \$257.9 million compared to \$169.3 million for the first six 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 60,400 gaming machines for record product sales of \$413.5 million during the current six months versus 42,300 machines and \$228.4 million in the comparable prior year period. Domestic shipments increased 97% to 31,500 units for the first half of fiscal 2001 from 16,000 units in the same period last year. This increase is due to strong growth in replacement sales, as well as the continued expansion in the Native American markets, particularly California. Sales to Native American markets grew to 12,000 units during the six months just ended from 2,500 machines in the year earlier period. The current period included 9,100 machines shipped to the California Native American market. Replacement demand is driven by an aging installed base of gaming machines, the popularity of IGT's new video reel game offerings, and the appeal of the new ticket-in/ticket-out voucher technology, which offers an alternative payout and vouchering solution to casino operators. At the end of the current period, over 15,000 EZ-Play(TM) machines were operating on voucher systems.

International shipments, comprising 48% of total units sold during the current six months, increased to 28,900 units from 26,300 units in the comparable prior year period. This increase was primarily related to Australia's improved performance, shipping 5,400 units in the current six month period compared to

2,766 units in the first six months of fiscal 2000.

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The gross profit margin on product sales grew to \$163.6 million or 40% of related revenue in the current six month period from \$84.9 million or 37% for the first six months of fiscal 2000. This margin improvement is due to increased sales volumes, higher average pricing related to a stronger mix of new video and voucher products, and a higher proportion of domestic sales in the total product sales mix.

Revenues from gaming operations for the first six months of fiscal 2001 grew 13% to \$169.7 million compared to \$150.5 million in the same prior year period. The gross profit on gaming operations increased to \$94.3 million or 56% of related revenue for the six months ended March 31, 2001 from \$84.3 million or 56% in the year earlier period.

Earnings of unconsolidated affiliates, reported net of expenses for accounting purposes, grew 43% to \$65.5 million in the six months just ended from \$45.6 million in the comparable prior year period.

The excellent player acceptance of IGT's exclusive new progressive game themes The Addams Family (TM) and Jeopardy!(R) Video contributed significantly to the growth in the proprietary gaming segment. Another major factor in the growth of this segment is the continued rollout of many of our MegaJackpots(TM) games into the expanding California market. At the end of this current period, the installed base of MegaJackpots(TM) machines in the California market was nearly 1,200 units. Our joint venture activities contributed significantly with approximately 13,000 Wheel of Fortune(R) and I Dream of Jeannie(TM) Wheel games installed at the end of the current period. The installed base of our proprietary machines, including placement under joint ventures, totaled 22,600 units at the end of the current period versus 16,800 one year earlier.

Operating Expenses

Current year-to-date operating expenses totaled \$135.2 million or 23% of total revenues compared to \$111.1 million or 29% in the comparable prior year period. Selling, general and administrative expenses increased \$18.1 million due to additional legal and compliance costs, as well as variable commission and incentive costs related to higher sales volumes. Depreciation and amortization expense, not included in cost of sales, decreased \$1.1 million due to fully depreciated assets still in use. Research and development expenses increased \$2.9 million to \$29.6 million for the current six months, primarily due to new game development costs. Bad debt expense increased \$7.0 million over the prior year period as the result of increased sales volumes, as well as specific reserves recorded related to Latin American receivables.

Other Income and Expense

Other income and expense, net, for the current six month period resulted in expense of \$26.7 million compared to income of \$1.1 million in the same period last year. The prior year period benefited from a \$27.0 million legal settlement. Operation of our progressive gaming 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 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.

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Business Segments Operating Profit (See Note 10 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 six months just ended grew to \$81.0 million or 20% of related revenues compared to \$30.2 million or 13% 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 six months of fiscal 2001 totaled \$117.6 million, an increase of \$34.3 million or 41% over the same period last year. This improvement resulted from the growth of the installed base and excellent player acceptance of our new MegaJackpot(TM) games, partially offset by lower interest rates which increase the cost of funding jackpots.

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 \$264.4 million at March 31, 2001. Of this amount, \$4.0 million was drawn, \$2.8 million was reserved for letters of credit, and the remaining \$257.6 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 March 31, 2001, we were in compliance with all applicable covenants.

Summary of Cash Activities

In the first six months of fiscal 2001, IGT's cash decreased \$30.1 million due to net cash used in investing activities, partially offset by net cash provided by operating and financing activities. The primary uses of cash consisted of \$31.2 million for the acquisition of Silicon Gaming, Inc. (Silicon) in March 2001 and \$12.2 million invested in property, plant and equipment.

Our proprietary MegaJackpots(TM) progressive 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 provided cash of \$5.9 million in the first six months of fiscal 2001 and used cash of \$17.2

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million in the comparable prior year period. 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(TM) progressive systems.

Operating Activities: Cash provided by operating activities in the first six months of fiscal 2001 totaled \$377,000 compared to the prior year period of \$88.0 million. The most significant fluctuations related to sales volumes and timing in receivables, inventories, prepaid expenses, accounts payable and accrued liabilities, and accrued income taxes. The fluctuation in the earning of unconsolidated affiliates is due to the timing of cash distributions.

Investing Activities: The primary use of investing cash for the current period related to the acquisition of Silicon. See Note 11 of Notes to Condensed

Consolidated Financial Statements. Use of cash from investing activities also included purchases of property, plant, and equipment totaling \$12.2 million in the current six month period compared to \$5.7 million in the prior year period. This fluctuation is primarily due to asset additions as a result of increased operations. 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 in 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 April 28, 2001, the remaining share repurchase authorization, as amended, totaled 10.8 million additional shares. No significant additional shares have been repurchased during the first seven 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 SFAS 133 on October 1, 2000 and it has not had a material impact on our financial condition or results of operations. See Note 12 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.

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.

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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:

- o a decline in demand for IGT's gaming products or reduction in the growth rate of new and existing markets;
- o delays of scheduled openings of newly constructed or planned casinos;
- o the effect of changes in economic conditions;
- o a decline in public acceptance of gaming;
- o unfavorable public referendums or anti-gaming legislation;
- o unfavorable legislation affecting or directed at manufacturers or operators of gaming products and systems;
- o delays in approvals from regulatory agencies;
- o political and economic instability in developing markets for IGT's products;
- o a decline in the demand for replacement machines;
- o a decrease in the desire of established casinos to upgrade machines in response to added competition from newly constructed casinos;
- o a decline in the appeal of IGT's gaming products or an increase in the popularity of existing or new games of competitors;
- o acceptance of new technology by our customers;
- o changes in interest rates causing a reduction of investment income or in market interest rate sensitive investments;
- o loss or retirement of our key executives or other key employees;
- o 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;
- o the effect of regulatory and governmental actions, including regulatory or governmental actions challenging our compliance with applicable gaming regulations;
- o unfavorable determinations or challenges of suitability by gaming regulatory authorities with respect to our officers, directors or key employees;
- o the limitation, conditioning, suspension or revocation of any of our gaming licenses;
- o fluctuations in foreign exchange rates, tariffs and other barriers;

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- o adverse changes in the credit worthiness of parties with whom IGT has forward currency exchange contracts;
- o the loss of sublessors of leased properties no longer used by IGT;
- o 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Under established procedures and controls, IGT enters into contractual arrangements, or derivatives, in the ordinary course of business to hedge its exposure to foreign exchange rate and interest rate risk. The counterparties to these contractual arrangements are major financial institutions. Although 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 March 31, 2001, we had net foreign currency exposure of \$48.0 million, of which \$44.2 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 \$1.0 million in both the current and prior year-to-date periods. 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 on 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 \$1.4 million and earnings of unconsolidated affiliated by \$0.9 million in the current six month period versus \$0.9 million and \$0.6 million in the comparable prior year period. 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%, we estimated the fair market value of these notes would have decreased approximately \$35.7 million at March 31, 2001 and \$40.1 million at September 30, 2000.

Part II - Other Information

Item 1. Legal Proceedings

(See Note 9 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

(a) On March 5, 2001, the Company held its annual meeting of stockholders.

(b) The following directors were elected to serve until the next annual meeting: G. Thomas Baker, Robert A. Bittman, Albert J. Crosson, Wilbur K. Keating, Charles N. Mathewson, Robert Miller, Frederick B. Rentschler and Rockwell A. Schnabel. These directors constitute all of the directors of the Company. Voting at the meeting was as follows:

	Number of Shares Voted For	Number of Shares Withheld
	-----	-----
G. Thomas Baker	67,748,900	717,852
Robert A. Bittman	67,703,806	762,946
Albert J. Crosson	67,707,844	758,908
Wilbur K. Keating	68,110,521	356,231
Charles N. Mathewson	67,712,284	754,468
Robert Miller	68,126,917	339,835
Frederick B. Rentschler	68,147,118	319,634
Rockwell A. Schnabel	54,729,043	13,737,709

(c) Stockholders approved amendments by the Board on December 5, 2000 to the Company's 1993 Stock Option Plan (Plan) to delete the 50,000 share limitation of the non-employee director option grant program. Number of shares voted for the amendment totaled 59.9 million, with 8.6 million shares withheld.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.15 International Game Technology 1993 Stock Option Plan, Amended and Restated as of August 27, 1996, Composite Plan Document Incorporating Amendments 1998-I, 1998-II and 2000-I.
- 10.16 Employment agreement with Maureen Mullarkey, Senior Vice President and Chief Financial Officer dated January 12, 2001.

(b) Reports on Form 8-K

None

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

INTERNATIONAL GAME TECHNOLOGY
1993 STOCK OPTION PLAN

(Amended and Restated Effective as of August 27, 1996)
(Composite Plan Document Incorporating Amendments 1998-I, 1998-II, and 2000-I)

I. THE PLAN

1.1 Purpose

The purpose of this Plan is to promote the success of the Company by providing an additional means through the grant of Awards to attract, motivate, retain and reward key employees, including officers, whether or not directors, of the Company with Awards and incentives for high levels of individual performance and improved financial performance of the Company and to attract, motivate and retain experienced and knowledgeable independent directors through the benefits provided under Article VII. "Corporation" means International Game Technology, a Nevada corporation, and "Company" means the Corporation and its Subsidiaries, collectively. These terms and other capitalized terms are defined in Article VIII.

1.2 Administration and Authorization; Power and Procedure

(a) Committee. This Plan shall be administered by and all Awards to Eligible Employees shall be authorized by the Committee. Action of the Committee with respect to the administration of this Plan shall be taken pursuant to a majority vote or by written consent of its members.

(b) Plan Awards; Interpretation; Powers of Committee. Subject to the express provisions of this Plan, the Committee shall have the authority:

- (i) to determine from among those persons eligible the particular Eligible Employees who will receive any Awards;
- (ii) to grant Awards to Eligible Employees, determine the price at which securities will be offered or awarded and the amount of securities to be offered or awarded to any of such individuals, and determine the other specific terms and conditions of such Awards consistent with the express limits of this Plan, and establish the installments (if any) in which such Awards shall become exercisable or shall vest, or determine that no delayed exercisability or vesting is required, and establish the events of termination or reversion of such Awards;
- (iii) to approve the forms of Award Agreements (which need not be identical either as to type of Award or as among Participants);
- (iv) to construe and interpret this Plan and any agreements defining the rights and obligations of the Company and Participants under this Plan,

further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan;

- (v) to cancel, modify, or waive the Corporation's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding Awards held by Eligible Employees, subject to any required consent under Section 6.6;
- (vi) to accelerate or extend the exercisability or extend the term of any or all such outstanding Awards within the maximum ten-year term of Awards under Section 1.6; and
- (vii) to make all other determinations and take such other action as contemplated by this Plan or as may be necessary or advisable for the administration of this Plan and the effectuation of its purposes.

Notwithstanding the foregoing, the provisions of Article VII relating to Non-Employee Director Options shall be automatic and, to the maximum extent possible, self-effectuating.

(c) Binding Determinations. Any action taken by, or inaction of, the Corporation, any Subsidiary, the Board or the Committee relating or pursuant to this Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. No member of the Board or Committee, or officer of the Corporation or any Subsidiary, shall be liable for any such action or inaction of the entity or body, of another person or, except in circumstances involving bad faith of himself or herself. Subject only to compliance with the express provisions hereof, the Board and Committee may act in their absolute discretion in matters within their authority related to this Plan.

(d) Reliance on Experts. In making any determination or in taking or not taking any action under this Plan, the Committee or the Board, as the case may be, may obtain and may rely upon the advice of experts, including professional advisors to the Corporation. No director, officer or agent of the Company shall be liable for any such action or determination taken or made or omitted in good faith.

(e) Delegation. The Committee may delegate ministerial, non-discretionary functions to a third-party administrator or to individuals who are officers or employees of the Company.

1.3 Participation

Awards may be granted by the Committee only to those persons that the Committee determines to be Eligible Employees. An Eligible Employee who has been granted an Award may, if otherwise eligible, be granted additional Awards if the Committee shall so determine. Non-Employee Directors shall not be eligible to

receive any Options except for Nonqualified Stock Options granted automatically without action of the Committee under the provisions of Article VII.

1.4 Shares Available for Awards; Share Limits

Subject to the provisions of Section 6.2, the capital stock that may be delivered under this Plan shall be shares of the Corporation's authorized but unissued Common Stock and any shares of its Common Stock held as treasury shares. The shares may be delivered for any lawful consideration.

(a) Share Limits. The maximum number of shares of Common Stock that may be delivered pursuant to all Awards, including Incentive Stock Options, granted to Eligible Employees under this Plan shall not exceed 8,000,000 shares. The maximum number of shares of Common Stock that may be delivered to Non-Employee Directors in respect of Options granted under the provisions of Article VII shall not exceed 500,000 shares. The maximum number of shares of Common Stock subject to Options and Stock Appreciation Rights that are granted during any calendar year to any individual shall not exceed 1,000,000 shares. The maximum number of shares of Common Stock that may be delivered to Participants in respect of time-based Restricted Stock Awards and Stock Bonuses granted, for nominal or no consideration other than the amount of the par value thereof, under the provisions of Article IV and Section 5.3, respectively, shall not exceed 500,000 shares in the aggregate. The limit in the foregoing sentence shall not apply to shares delivered in respect of compensation earned but deferred. Each of the foregoing numerical limits shall be subject to adjustment as contemplated by Section 6.2.

(b) Share Reservation; Replenishment and Reissue of Unvested Awards. No Award may be granted under this Plan unless, on the date of grant, the sum of (i) the maximum number of shares issuable at any time pursuant to such Award, plus (ii) the number of shares that have previously been issued pursuant to Awards granted under this Plan, other than reacquired shares available for reissue consistent with any applicable legal limitations, plus (iii) the maximum number of shares that may be issued at any time after such date of grant pursuant to Awards that are outstanding on such date, does not exceed the applicable share limit(s) under Section 1.4(a). Shares that are subject to or underlie Awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan, as well as reacquired shares, shall again, except to the extent prohibited by law, be available for subsequent Awards under the Plan. Except as limited by law, if an Award is or may be settled only in cash, such Award need not be counted against any of the limits under this Section 1.4.

1.5 Grant of Awards

Subject to the express provisions of this Plan, the Committee shall determine the number of shares of Common Stock subject to each Award, the price (if any) to be paid for the shares or the Award and, in the case of Performance Share Awards, in addition to matters addressed in Section 1.2(b), the specific

objectives, goals and performance criteria (such as an increase in sales, market value, earnings or book value over a base period, the years of service before vesting, the relevant job classification or level of responsibility or other factors) that further define the terms of the Performance Share Award. Each Award shall be evidenced by an Award Agreement signed by the Corporation and, if required by the Committee, by the Participant. The Award Agreement shall set forth the material terms and conditions of the Award established by the Committee consistent with the specific provisions of this Plan.

1.6 Award Period

Each Award and all executory rights or obligations under the related Award Agreement shall expire on such date (if any) as shall be determined by the Committee, but in the case of Options or other rights to acquire Common Stock not later than ten (10) years after the Award Date.

1.7 Limitations on Exercise and Vesting of Awards

(a) Exercise. Unless the Committee expressly provides otherwise, no Award shall be exercisable or shall vest until at least six months after the initial Award Date, and once exercisable an Award shall remain exercisable until the expiration or earlier termination of the Award.

(b) Procedure. Any exercisable Award shall be deemed to be exercised when the Secretary of the Corporation receives written notice of such exercise from the Participant, together with the required any payment made in accordance with Section 2.2(b) or 7.3, as the case may be.

(c) Fractional Shares/Minimum Issue. Fractional share interests shall be disregarded, but may be accumulated. The Committee, however, may determine in the case of Eligible Employees that cash, other securities or other property will be paid or transferred in lieu of any fractional share interests. No fewer than 100 shares may be purchased on exercise of any Award at one time unless the number purchased is the total number at the time available for purchase under the Award.

1.8 Acceptance of Notes to Finance Exercise

The Corporation may, with the Committee's approval, accept one or more notes from any Eligible Employee in connection with the exercise or receipt of any outstanding Award; provided that any such note shall be subject to the following terms and conditions:

(a) The principal of the note shall not exceed the amount required to be paid to the Corporation upon the exercise or receipt of one or more Awards under the Plan and the note shall be delivered directly to the Corporation in consideration of such exercise or receipt.

(b) The initial term of the note shall be determined by the Committee; provided

that the term of the note, including extensions, shall not exceed a period of 10 years.

(c) The note shall provide for full recourse to the Participant and shall bear interest at a rate determined by the Committee but not less than the applicable imputed interest rate specified by the Code.

(d) If the employment of the Participant terminates, the unpaid principal balance of the note shall become due and payable on the 10th business day after such termination; provided, however, that if a sale of such shares would cause such Employee Participant to incur liability under Section 16(b) of the Exchange Act, the unpaid balance shall become due and payable on the 10th business day after the first day on which a sale of such shares could have been made without incurring such liability assuming for these purposes that there are no other transactions by the Employee Participant subsequent to such termination.

(e) If required by the Committee or by applicable law, the note shall be secured by a pledge of any shares or rights financed thereby in compliance with applicable law.

(f) The terms, repayment provisions, and collateral release provisions of the note and the pledge securing the note shall conform with applicable rules and regulations of the Federal Reserve Board as then in effect.

1.9 No Transferability

(a) Limit On Exercise and Transfer. Unless otherwise expressly provided in (or pursuant to) this Section 1.9, by applicable law and by the Award Agreement, as the same may be amended, (i) all Awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; Awards shall be exercised only by the Participant; and (ii) shares issuable pursuant to an Award shall be delivered only to (or for the account of) the Participant.

(b) Exceptions. The Committee may permit Awards to be exercised by certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family and/or charitable institutions, or to such other persons or entities as may be approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes on a gratuitous or donative basis and without consideration (other than nominal consideration).

(c) Further Exceptions to Limits On Transfer. The exercise and transfer restrictions in Section 1.9(a) shall not apply to:

- (i) transfers to the Corporation,
- (ii) the designation of a beneficiary to receive benefits in the event of the Participant's death or, if the Participant has died, transfers to or exercise by the Participant's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution,
- (iii) transfers pursuant to a QDRO if approved or ratified by the Committee,
- (iv) if the Participant has suffered a Total Disability, permitted transfers or exercises on behalf of the Participant by his or her legal representative, or
- (v) the authorization by the Committee of "cashless exercise" procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of Awards consistent with applicable laws and the express authorization of the Committee.

(d) Limitations on Incentive Stock Options and Restricted Stock Awards. Notwithstanding the foregoing, Incentive Stock Options and Restricted Stock Awards shall be subject to any and all applicable transfer restrictions under the Code.

II. EMPLOYEE OPTIONS

2.1 Grants

One or more Options may be granted under this Article to any Eligible Employee. Each Option granted may be either an Option intended to be an Incentive Stock Option, or an Option not so intended, and such intent shall be indicated in the applicable Option Agreement.

2.2 Option Price

(a) Pricing Limits. The purchase price per share of the Common Stock covered by each Option shall be determined by the Committee at the time of the Option is granted, but in the case of Incentive Stock Options shall not be less than 100% (110% in the case of a Participant who owns or is deemed to own under Section 424(d) of the Code more than 10% of the total combined voting power of all classes of stock of the Corporation) of the Fair Market Value of the Common Stock on the Award Date.

(b) Payment Provisions. The purchase price of any shares purchased on exercise of an Option granted under this Article shall be paid in full at the time of each purchase in one or a combination of the following methods: (i) in cash or by electronic funds transfer; (ii) by check payable to the order of the Corporation; (iii) if authorized by the Committee or specified in the applicable Option Agreement, by a promissory note of the Participant consistent with the

requirements of Section 1.8; (iv) by notice and third party payment in such manner as may be authorized by the Committee; or (v) by the delivery of shares of Common Stock of the Corporation already owned by the Participant, provided, however, that the Committee may in its absolute discretion limit the Participant's ability to exercise an Option by delivering such shares. Shares of Common Stock used to satisfy the exercise price of an Option shall be valued at their Fair Market Value on the date of exercise.

2.3 Limitations on Grant and Terms of Incentive Stock Options

(a) \$100,000 Limit. To the extent that the aggregate "Fair Market Value" of stock with respect to which Incentive Stock Options first become exercisable by a Participant in any calendar year exceeds \$100,000, taking into account both Common Stock subject to Incentive Stock Options under this Plan and stock subject to Incentive Stock Options under all other plans of the Company or any parent corporation, such options shall be treated as nonqualified stock options.

For this purpose, the "Fair Market Value" of the stock subject to options shall be determined as of the date the options were optioned. In reducing the number of options treated as Incentive Stock Options to meet the \$100,000 limit, the most recently granted options shall be reduced first. To the extent a reduction of simultaneously granted options is necessary to meet the \$100,000 limit, the Committee may, in the manner and to the extent permitted by law, designate which shares of Common Stock are to be treated as shares acquired pursuant to the exercise of an Incentive Stock Option.

(b) Option Period. Each Incentive Stock Option and all rights thereunder shall expire no later than ten years after the Award Date.

(c) Other Code Limits. There shall be imposed in any Award Agreement relating to Incentive Stock Options such terms and conditions as from time to time are required in order that the Option be an "incentive stock option" as that term is defined in Section 422 of the Code.

2.4 Limits on 10% Holders

No Incentive Stock Option may be granted to any person who, at the time the Option is granted, owns (or is deemed to own under Section 424(d) of the Code) shares of outstanding Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation, unless the exercise price of such Option is at least 110% of the Fair Market Value of the stock subject to the Option and such Option by its terms is not exercisable after the expiration of five years from the date such Option is granted.

2.5 Cancellation and Regrant/Waiver of Restrictions

Subject to Section 1.4 and Section 6.6 and the specific limitations on Options contained in this Plan, the Committee from time to time may authorize, generally or in specific cases only, for the benefit of any Eligible Employee,

any adjustment in the exercise price, the number of shares subject to or the term of, an Option granted under this Article by cancellation of an outstanding Option and a subsequent regranting of an Option, by amendment, by substitution of an outstanding Option, by waiver or by other legally valid means. Such amendment or other action may result among other changes in an exercise price which is higher or lower than the exercise or purchase price of the original or prior Option, provide for a greater or lesser number of shares subject to the Option, or provide for a longer or shorter vesting or exercise period.

III. STOCK APPRECIATION RIGHTS

3.1 Grants

In its discretion, the Committee may grant a Stock Appreciation Right to any Eligible Employee either concurrently with the grant of another Award or in respect of an outstanding Award, in whole or in part, or independently of any other Award. Any Stock Appreciation Right granted in connection with an Incentive Stock Option shall contain such terms as may be required to comply with the provisions of Section 422 of the Code and the regulations promulgated thereunder, unless the holder otherwise agrees.

3.2 Exercise of Stock Appreciation Rights

(a) **Exercisability.** Unless the Award Agreement or the Committee otherwise provides, a Stock Appreciation Right related to another Award shall be exercisable at such time or times, and to the extent, that the related Award shall be exercisable.

(b) **Effect on Available Shares.** To the extent that a Stock Appreciation Right is exercised, the number of underlying shares of Common Stock therefore subject to a related Award shall be charged against the maximum amount of Common Stock that may be delivered pursuant to Awards under this Plan. The number of shares subject to the Stock Appreciation Right and the related Option of the Participant shall be reduced by the number of underlying shares as to which the exercise related, unless the Award Agreement otherwise provides.

(c) **Stand-Alone SARs.** A Stock Appreciation Right granted independently of any other Award shall be exercisable pursuant to the terms of the Award Agreement but in no event earlier than six months after the Award Date, except in the case of death or Total Disability.

3.3 Payment

(a) **Amount.** Unless the Committee otherwise provides, upon exercise of a Stock Appreciation Right and the attendant surrender of an exercisable portion of any related Award, the Participant shall be entitled to receive payment of an amount determined by multiplying

(i) the difference obtained by subtracting the exercise price per share of

Common Stock under the related Award (if applicable) or the initial share value specified in the Award from the Fair Market Value of a share of Common Stock on the date of exercise of the Stock Appreciation Right, by

- (ii) the number of shares with respect to which the Stock Appreciation Right shall have been exercised.

(b) Form of Payment. The Committee, in its sole discretion, shall determine the form in which payment shall be made of the amount determined under paragraph (a) above, either solely in cash, solely in shares of Common Stock (valued at Fair Market Value on the date of exercise of the Stock Appreciation Right), or partly in such shares and partly in cash, provided that the Committee shall have determined that such exercise and payment are consistent with applicable law. If the Committee permits the Participant to elect to receive cash or shares (or a combination thereof) on such exercise, any such election shall be subject to such conditions as the Committee may impose.

IV. RESTRICTED STOCK AWARDS

4.1 Grants

The Committee may, in its discretion, grant one or more Restricted Stock Awards to any Eligible Employee. Each Restricted Stock Award Agreement shall specify the number of shares of Common Stock to be issued to the Participant, the date of such issuance, the consideration for such shares (but

not less than the minimum lawful consideration under applicable state law) by the Participant, the extent to which the Participant shall be entitled to dividends, voting and other rights in respect of the shares prior to vesting and the restrictions imposed on such shares and the conditions of release or lapse of such restrictions. Such restrictions shall not lapse earlier than 12 months after the Award Date, except to the extent the Committee may otherwise provide. Stock certificates evidencing shares of Restricted Stock pending the lapse of the restrictions ("restricted shares") shall bear a legend making appropriate reference to the restrictions imposed hereunder and shall be held by the Corporation or by a third party designated by the Committee until the restrictions on such shares shall have lapsed and the shares shall have vested in accordance with the provisions of the Award and Section 1.7. Upon issuance of the Restricted Stock Award, the Participant may be required to provide such further assurance and documents as the Committee may require to enforce the restrictions.

4.2 Restrictions

(a) Pre-Vesting Restraints. Except as provided in Section 4.1 and 1.9, restricted shares comprising any Restricted Stock Award may not be sold, assigned, transferred, pledged or otherwise disposed of or encumbered, either voluntarily or involuntarily, until the restrictions on such shares have lapsed

and the shares have become vested.

(b) Dividend and Voting Rights. Unless otherwise provided in the applicable Award Agreement, a Participant receiving a Restricted Stock Award shall be entitled to cash dividend and voting rights for all shares issued even though they are not vested, provided that such rights shall terminate immediately as to any restricted shares which cease to be eligible for vesting.

(c) Cash Payments. If the Participant shall have paid or received cash (including any dividends) in connection with the Restricted Stock Award, the Award Agreement shall specify whether and to what extent such cash shall be returned (with or without an earnings factor) as to any restricted shares which cease to be eligible for vesting.

4.3 Return to the Corporation

Unless the Committee otherwise expressly provides, restricted shares that remain subject to restrictions at the time of termination of employment or are subject to other conditions to vesting that have not been satisfied by the time specified in the applicable Award Agreement shall not vest and shall be returned to the Corporation in such manner and on such terms as the Committee shall therein provide.

V. PERFORMANCE SHARE AWARDS AND STOCK BONUSES

5.1 Grants of Performance Share Awards.

The Committee may, in its discretion, grant Performance Share Awards to Eligible Employees based upon such factors as the Committee shall deem relevant in light of the specific type and terms of the award. An Award Agreement shall specify the maximum number of shares of Common Stock (if any) subject to the Performance Share Award, the consideration (but not less than the minimum lawful consideration) to be paid for any such shares as may be issuable to the

Participant, the duration of the Award and the conditions upon which delivery of any shares or cash to the Participant shall be based. The amount of cash or shares or other property that may be deliverable pursuant to such Award shall be based upon the degree of attainment over a specified period (a "performance cycle") as may be established by the Committee of such measure(s) of the performance of the Company (or any part thereof) or the Participant as may be established by the Committee. The Committee may provide for full or partial credit, prior to completion of such performance cycle or the attainment of the performance achievement specified in the Award, in the event of the Participant's death, or Total Disability, a Change in Control Event or in such other circumstances as the Committee consistent with Section 6.10(c)(2), if applicable, may determine.

5.2 Special Performance-Based Share Awards.

Without limiting the generality of the foregoing, and in addition to Options and Stock Appreciation Rights granted under other provisions of this Plan which are intended to satisfy the exception for "performance-based compensation" under Section 162(m) of the Code (with such Awards hereinafter referred to as a "Qualifying Option" or a "Qualifying Stock Appreciation Right," respectively), other performance-based awards within the meaning of Section 162(m) of the Code ("Performance-Based Awards"), whether in the form of restricted stock, performance stock, phantom stock, Cash-Based Awards, or other rights, the grant, vesting, exercisability or payment of which depends on the degree of achievement of the Performance Goals relative to preestablished targeted levels for the Corporation or the Corporation and one or more of its Subsidiaries, may be granted under this Plan. Any Qualifying Option or Qualifying Stock Appreciation Right shall be subject only to the requirements of subsections (a) and (c) below in order for such Awards to satisfy the requirements for Performance-Based Awards under this Section 5.2. With the exception of any Qualifying Option or Qualifying Stock Appreciation Right, an Award that is intended to satisfy the requirements of this Section 5.2 shall be designated as a Performance-Based Award at the time of grant.

(a) Eligible Class. The eligible class of persons for Performance-Based Awards under this Section shall be the executive officers of the Corporation.

(b) Performance Goal Alternatives. The specific performance goals for Performance-Based Awards granted under this Section (other than Qualifying Options and Qualifying Stock Appreciation Rights) shall be, on an absolute or relative basis, one or more of the Performance Goals, as selected by the Committee in its sole discretion. The Committee shall establish in the applicable Award Agreement the specific performance target(s) relative to the Performance Goal(s) which must be attained before the compensation under the Performance-Based Award becomes payable. The specific targets shall be determined within the time period permitted under Section 162(m) of the Code (and any regulations issued thereunder) so that such targets are considered to be preestablished and so that the attainment of such targets is substantially uncertain at the time of their establishment. The applicable performance measurement period may not be less than one nor more than 10 years.

(c) Maximum Performance-Based Award. Notwithstanding any other provision of the Plan to the contrary, the maximum number of shares of Common Stock which may be delivered pursuant to options, stock appreciation rights, restricted stock or

other share-based awards that are granted as Performance-Based Awards to any Participant in any calendar year shall not exceed 1,000,000 shares, either individually or in the aggregate, subject to adjustment as provided in Section 6.2. Awards that are cancelled during the year shall be counted against this limit to the extent required by Section 162(m) of the Code. In addition, the aggregate amount of compensation to be paid to any Participant in respect of any Cash-Based Awards that are granted during any calendar year as Performance-Based Awards shall not exceed \$1,000,000.

(d) Committee Certification. Before any Performance-Based Award under this Section 5.2 (other than Qualifying Options or Qualifying Stock Appreciation Rights) is paid, the Committee must certify in writing that the Performance Goal(s) and any other material terms of the Performance-Based Award were satisfied; provided, however, that a Performance-Based Award may be paid without regard to the satisfaction of the applicable Performance Goal in the event of a Change in Control Event in accordance with Section 6.2(d).

(e) Terms and Conditions of Awards. The Committee will have the discretion to determine the restrictions or other limitations of the individual Awards granted under this Section 5.2 including the authority to reduce Awards, payouts or vesting or to pay no Awards, in its sole discretion, if the Committee preserves such authority at the time of grant by language to this effect in its authorizing resolutions or otherwise.

(f) Adjustments for Changes in Capitalization and other Material Changes. In the event of a change in corporate capitalization, such as a stock split or stock dividend, or a corporate transaction, such as a merger, consolidation, spinoff, reorganization or similar event, or any partial or complete liquidation of the Corporation, or any similar event consistent with regulations issued under Section 162(m) of the Code including, without limitation, any material change in accounting policies or practices affecting the Corporation and/or the Performance Goals or targets, then the Committee may make adjustments to the Performance Goals and targets relating to outstanding Performance-Based Awards to the extent such adjustments are made to reflect the occurrence of such an event; provided, however, that adjustments described in this subsection may be made only to the extent that the occurrence of an event described herein was unforeseen at the time the targets for a Performance-Based Award were established by the Committee.

5.3 Grants of Stock Bonuses.

The Committee may grant a Stock Bonus to any Eligible Employee to reward exceptional or special services, contributions or achievements in the manner and on such terms and conditions (including any restrictions on such shares) as determined from time to time by the Committee. The number of shares so awarded shall be determined by the Committee. The Award may be granted independently or in lieu of a cash bonus.

5.4 Deferred Payments.

The Committee may authorize for the benefit of any Eligible Person the deferral of any payment of cash or shares that may become due or of cash otherwise payable under this Plan, and provide for accredited benefits thereon based upon such deferment, at the election or at the request of such Participant, subject to the other terms of this Plan. Such deferral shall be subject to such further conditions, restrictions or requirements as the Committee may impose, subject to any then vested rights of Participants.

VI. OTHER PROVISIONS

6.1 Rights of Eligible Employees, Participants and Beneficiaries

(a) Employment Status. Status as an Eligible Employee shall not be construed as a commitment that any Award will be granted under this Plan to an Eligible Employee or to Eligible Employees generally.

(b) No Employment Contract. Nothing contained in this Plan (or in any other documents related to this Plan or to any Award) shall confer upon any Eligible Employee or other Participant any right to continue in the employ or other service of the Company or constitute any contract or agreement of employment or other service, nor shall interfere in any way with the right of the Company to change such person's compensation or other benefits or to terminate the employment of such person, with or without cause, but nothing contained in this Plan or any document related hereto shall adversely affect any independent contractual right of such person without his or her consent thereto.

(c) Plan Not Funded. Awards payable under this Plan shall be payable in shares or from the general assets of the Corporation, and no special or separate reserve, fund or deposit shall be made to assure payment of such Awards. No Participant, Beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly otherwise provided) of the Company by reason of any Award hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company and any Participant, Beneficiary or other person. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment pursuant to any Award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

6.2 Adjustments; Acceleration

(a) Adjustments. If there shall occur any extraordinary dividend or other extraordinary distribution in respect of the Common Stock (whether in the form of cash, Common Stock, other securities, or other property), or any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend), reverse stock split, reorganization, merger, combination, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Corporation, or there shall occur any other like corporate transaction or event in respect of the Common Stock on a sale of substantially all the assets of the Corporation as an entirety, then the Committee shall, in such manner and to such extent (if any) as it deems appropriate and equitable (1) proportionately adjust any or all of (i) the number and type of shares of Common Stock (or other securities) which thereafter may be made the subject of Awards (including the specific maxima and

numbers of shares set forth elsewhere in this Plan), (ii) the number, amount and

type of shares of Common Stock (or other securities or property) subject to any or all outstanding Awards, (iii) the grant, purchase, or exercise price of any or all outstanding Awards, (iv) the securities, cash or other property deliverable upon exercise of any outstanding Awards, or (v) the performance standards appropriate to any outstanding Awards, or (2) in the case of an extraordinary dividend or other distribution, recapitalization, reclassification, merger, reorganization, consolidation, combination, sale of assets, split up, exchange, or spin off, make provision for a cash payment or for the substitution or exchange of any or all outstanding Awards or the cash, securities or property deliverable to the holder of any or all outstanding Options based upon the distribution or consideration payable to holders of the Common Stock of the Corporation upon or in respect of such event; provided, however, in each case, that with respect to Incentive Stock Options, no such adjustment shall be made which would cause the Plan to violate Section 424(a) of the Code or any successor provisions thereto.

(b) Acceleration of Awards Upon Change in Control. As to any Eligible Employee Participant, unless prior to a Change in Control Event the Committee determines that, upon its occurrence, there shall be no acceleration of benefits under Awards or determines that only certain or limited benefits under Options shall be accelerated and the extent to which they shall be accelerated, and/or establishes a different time in respect of such Change in Control Event for such acceleration, then upon the occurrence of a Change in Control Event (i) each Option and Stock Appreciation Right shall become immediately exercisable, (ii) Restricted Stock shall immediately vest free of restrictions, and (iii) each Performance Share Award shall become payable to the Participant; provided, however, that in no event shall any Award be accelerated as to any Section 16 Person to a date less than six months after the Award Date of such Award. The Committee may override the limitations on acceleration in this Section 3.2(b) by express provision in the Award Agreement and may accord any Eligible Employee a right to refuse any acceleration, whether pursuant to the Award Agreement or otherwise, in such circumstances as the Committee may approve. Any acceleration of Awards shall comply with applicable regulatory requirements, including, without limitation, Section 422 of the Code.

(c) Possible Early Termination of Accelerated Awards. If any Option or other right to acquire Common Stock under this Plan (other than under Article VII) has been fully accelerated as permitted by Section 6.2(b) but is not exercised prior to (i) a dissolution of the Corporation, or (ii) a reorganization event described in Section 6.2(a) that the Corporation does not survive, or (iii) the consummation of an event described in Section 6.2(a) that results in a Change in Control Event approved by the Board, such Option or right shall thereupon terminate, subject to any provision that has been expressly made by the Committee for the survival, substitution, exchange or other settlement of such Option or right.

6.3 Effect of Termination of Employment

The Committee shall establish in respect of each Award granted to an Eligible Employee the effect of a termination of employment on the rights and benefits thereunder and in so doing may make distinctions based upon the cause of termination. In addition, in the event of, or in anticipation of, a termination of employment with the Company for any reason, other than discharge for cause, the Committee may, in its discretion, increase the portion of the Participant's Award available to the Participant, or Participant's Beneficiary or Personal Representative, as the case may be, or, subject to the provisions of Section 1.6, extend the exercisability period upon such terms as the Committee shall determine and expressly set forth in or by amendment to the Award Agreement.

6.4 Compliance with Laws

This Plan, the granting and vesting of Awards under this Plan and the offer, issuance and delivery of shares of Common Stock and/or the payment of money under this Plan or under Awards granted hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including, but not limited to, state and federal securities laws and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Corporation, be necessary or advisable in connection therewith. Any securities delivered under this Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Corporation, provide such assurances and representations to the Corporation as the Corporation may deem necessary or desirable to assure compliance with all applicable legal requirements.

6.5 Tax Withholding

(a) Cash or Shares. Upon any exercise, vesting or payment of any Award or upon the disposition of shares of Common Stock acquired pursuant to the exercise of an Incentive Stock Option prior to satisfaction of the holding period requirements of Section 422 of the Code, the Company shall have the right at its option to (i) require the Participant (or Personal Representative or Beneficiary, as the case may be) to pay or provide for payment of the amount of any taxes which the Company may be required to withhold with respect to such Award event or payment or (ii) deduct from any amount payable in cash the amount of any taxes which the Company may be required to withhold with respect to such cash payment. In any case where a tax is required to be withheld in connection with the delivery of shares of Common Stock under this Plan, the Committee may in its sole discretion grant (either at the time of the Award is granted or thereafter) to the Participant the right to elect, pursuant to such rules and subject to such conditions as the Committee may establish, to have the Corporation reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of shares valued at their then Fair Market Value, to satisfy such withholding obligation.

(b) Tax Loans. The Committee may, in its discretion, authorize a loan to an

Eligible Employee in the amount of any taxes which the Company may be required to withhold with respect to shares of Common Stock received (or disposed of, as the case may be) pursuant to a transaction described in subsection (a) above. Such a loan shall be for a term, at a rate of interest and pursuant to such other terms and conditions as the Committee, under applicable law, may establish and such loan need not comply with the provisions of Section 1.8.

6.6 Plan Amendment, Termination and Suspension

(a) Board Authorization. The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. No Awards may be granted during any suspension of this Plan or after termination of this Plan, but the Committee shall retain jurisdiction as to Awards then outstanding in accordance with the terms of this Plan.

(b) Stockholder Approval. Any amendment that would (i) materially increase the benefits accruing to Participants under this Plan, (ii) materially increase the aggregate number of securities that may be issued under this Plan, or (iii) materially modify the requirements as to eligibility for participation in this Plan, shall be subject to stockholder approval only to the extent then required by Section 422 of the Code or any other applicable law, or deemed necessary or advisable by the Board.

(c) Amendment to Awards. Without limiting any other express authority of the Committee under but subject to the express limits of this Plan, the Committee by agreement or resolution may waive conditions of or limitations on Awards to Eligible Employees that the Committee in the prior exercise of its discretion has imposed, without the consent of a Participant, and may make other changes to the terms and conditions of Awards that do not affect in any manner materially adverse to the Employee Participant, his or her rights and benefits under an Award.

(d) Limitations on Amendments to Plan and Awards. No amendment, suspension or termination of the Plan or change of or affecting any outstanding Award shall, without written consent of the Participant, affect in any manner materially adverse to the Participant any rights or benefits of the Participant or obligations of the Corporation under any Award granted under this Plan prior to the effective date of such change. Changes contemplated by Section 6.2 shall not be deemed to constitute changes or amendments for purposes of this Section 6.6.

6.7 Privileges of Stock Ownership

Except as otherwise expressly authorized by the Committee or this Plan, a Participant shall not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by him or her. No adjustment will be made for dividends or other rights as a stockholders for which a record date is prior to such date of delivery.

6.8 Effective Date of the Plan

This Plan was originally effective as of September 22, 1992 ("Effective Date"), the date of Board approval, and was subject to stockholder approval within 12 months thereafter. The Plan is hereby amended and restated in its entirety, effective as of August 27, 1996.

6.9 Term of the Plan

No Award shall be granted more than ten years after the Effective Date of this Plan (the "termination date"). Unless otherwise expressly provided in this Plan or in an applicable Award Agreement, any Award granted prior to the termination date may extend beyond such date, and all authority of the Committee with respect to Awards hereunder, including the authority to amend an Award, shall continue during any suspension of this Plan and in respect of outstanding Awards on such termination date.

6.10 Governing Law; Construction; Severability

(a) Choice of Law. This Plan, the Awards, all documents evidencing Awards and all other related documents shall be governed by, and construed in accordance with the laws of the State of Nevada.

(b) Severability. If any provision shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

(c) Plan Construction.

- (1) Rule 16b-3. It is the intent of the Corporation that transactions in and affecting Awards in the case of Participants who are or may be subject to Section 16 of the Exchange Act satisfy any then applicable requirements of Rule 16b-3 so that such persons will be entitled to the benefits of Rule 16b-3 or other exemptive rules under Section 16 of the Exchange Act in respect of these transactions and will not be subjected to avoidable liability thereunder. If any provision of this Plan or of any Award would otherwise frustrate or conflict with the intent expressed above, that provision to the extent possible shall be interpreted and deemed amended so as to avoid such conflict, but to the extent of any remaining irreconcilable conflict with such intent as to such persons in the circumstances, such provision shall be deemed void.
- (2) Section 162(m). It is the further intent of the Company that Options and Stock Appreciation Rights with an exercise or base price not less than Fair Market Value on the date of grant and Performance Share Awards under Section 5.2 of the Plan that are granted to or held by a Section 16 Person shall qualify as performance-based compensation under Section 162(m) of the Code, and this Plan shall be interpreted

consistent with such intent.

6.11 Captions

Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

6.12 Effect of Change of Subsidiary Status

For purposes of this Plan and any Award hereunder, if an entity ceases to be a Subsidiary a termination of employment shall be deemed to have occurred with respect to each employee of such Subsidiary who does not continue as an employee of another entity within the Company.

6.13 Non-Exclusivity of Plan

Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Committee to grant awards or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority.

VII. NON-EMPLOYEE DIRECTOR OPTIONS

7.1 Participation

Options under this Article VII shall be made only to Non-Employee Directors.

7.2 Annual Option Grants

(a) Time of Initial Grant. After approval of this Plan by the stockholders of the Corporation, if any person who is not then an officer or employee of the Company shall become a director of the Corporation, there shall be granted automatically to such person (without any action by the Board of Committee) a Nonqualified Stock Option (the Award Date of which shall be the date such person takes office) to purchase 10,000 shares.

(b) Subsequent Annual Options. In each calendar year during the term of the Plan, commencing in 1994, there shall be granted automatically (without any action by the Committee or the Board) a Nonqualified Stock Option to purchase 4,000 shares of Common Stock to each Non-Employee Director who is re-elected as a director of the Corporation (the Award Date of which shall be the date of such re-election). In addition, subject to stockholder approval at the 1997 Annual Stockholders Meeting, each person who is a Non-Employee Director on August 27, 1996 shall be granted on a one-time basis without further action on Option to purchase 2,000 shares of Common Stock (the Award Date of which shall be August

27, 1996, the date of Board approval of this amendment). Furthermore, notwithstanding the first sentence of this subsection (b), but subject to stockholder approval at the 1997 Annual Stockholders Meeting, in each calendar year during the remaining term of the Plan, (commencing in 1997), the grant described in the first sentence of this subsection shall not be made and instead there shall be granted automatically (without any action by the Committee or the Board) a Nonqualified Stock Option to purchase 6,000 shares of Common Stock to each Non-Employee Director who is re-elected as a director of the Corporation (the Award Date of which shall be the date of such re-election).

(c) Maximum Number of Shares. Annual grants that would otherwise exceed the maximum number of shares under Section 1.4(a) shall be prorated within such limitation.

7.3 Option Price

The purchase price per share of the Common Stock covered by each Option granted pursuant to Section 7.2 hereof shall be 100% of the Fair Market Value of the Common Stock on the Award Date. The exercise price of any Option granted under this Article shall be paid in full at the time of each purchase in cash or by check or in shares of Common Stock valued at their Fair Market Value on the date of exercise of the Option, or partly in such shares and partly in cash, provided that any such shares used in payment shall have been owned by the Participant at least six months prior to the date of exercise.

7.4 Option Period and Exercisability

Each Option granted under this Article VII and all rights or obligations thereunder shall commence on the Award Date and expire ten years thereafter and shall be subject to earlier termination as provided below. Each Option granted under Section 7.2 shall become exercisable at the rate of 33-1/3% per year, on the first, second and third anniversaries of the Award Date.

7.5 Termination of Directorship

If a Non-Employee Director's services as a member of the Board of Directors terminate by reason of death, Disability or Retirement, an Option granted pursuant to this Article held by such Participant shall immediately become and shall remain exercisable for two years after the date of such termination or until the expiration of the stated term of such Option, whichever first occurs. If a Non-Employee Director's services as a member of the Board of Directors terminate for any other reason, any portion of an Option granted pursuant to this Article which is not then exercisable shall terminate and any portion of such Option which is then exercisable may be exercised within a period of thirty (30) days after the date of such termination or until the expiration of the stated term, whichever first occurs.

7.6 Adjustments

Options granted under this Article VII shall be subject to adjustment as provided in Section 6.2, but only to the extent that (a) such adjustment and the Committee's action in respect thereof satisfy applicable law, (b) such adjustment in the case of a Change in Control Event is effected pursuant to the terms of a reorganization agreement approved by stockholders of the Corporation, and (c) such adjustment is consistent with adjustments to Options held by persons other than executive officers or directors of the Corporation.

7.7 Acceleration Upon a Change in Control Event

Upon the occurrence of a Change in Control Event, each Option granted under Section 7.2 hereof shall become immediately exercisable in full. To the extent that any Option granted under this Article VII is not exercised prior to (i) a dissolution of the Corporation or (ii) a merger or other corporate event that the Corporation does not survive, and no provision is (or consistent with the provisions of Section 7.6 can be) made for the assumption, conversion, substitution or exchange of the Option, the Option shall terminate upon the occurrence of such event.

VIII. DEFINITIONS

8.1 Definitions

(a) "Award" shall mean an award of any Option, Stock Appreciation Right, Restricted Stock, Stock Bonus, Performance Share Award, Performance-Based Award, Cash-Based Award, dividend equivalent or deferred payment right or other right or security that would constitute a "derivative security" under Rule 16a-1(c) of the Exchange Act, or any combination thereof, whether alternative or cumulative, authorized by and granted under this Plan.

(b) "Award Agreement" shall mean any writing setting forth the terms of an Award that has been authorized by the Committee.

(c) "Award Date" shall mean the date upon which the Committee took the action granting an Award or such later date as the Committee designates as the Award Date at the time of the Award or, in the case of Awards under Article VII, the applicable dates set forth therein.

(d) "Award Period" shall mean the period beginning on an Award Date and ending on the expiration date of such Award.

(e) "Beneficiary" shall mean the person, persons, trust or trusts designated by a Participant or, in the absence of a designation, entitled by will or the laws of the descent and distribution to receive the benefits specified in the Award Agreement and under this Plan in the event of a Participant's death, and shall mean the Participant's executor or administrator if no other Beneficiary is designated and able to act under the circumstances.

(f) "Board" shall mean the Board of Directors of the Corporation.

(g) "Cash-Based Awards" shall mean Awards that, if paid, must be paid in cash and that are neither denominated in nor have a value derived from the value of, nor an exercise or conversion privilege at a price related to, shares of Common Stock.

(h) "Cash Flow" shall mean cash and cash equivalents derived from either (i) net cash flow from operations or (ii) net cash flow from operations, financings and investing activities, as determined by the Committee at the time an Award is granted.

(i) "Change in Control Event" shall mean any of the following:

- (1) Approval by the stockholders of the Corporation of the dissolution or liquidation of the Corporation;
- (2) Approval by the stockholders of the Corporation of an agreement to merge or consolidate, or otherwise reorganize, with or into one or more entities that are not Subsidiaries, as a result of which less than 50% of the outstanding voting securities of the surviving or resulting entity immediately after the reorganization are, or will be, owned by stockholders of the Corporation immediately before such reorganization (assuming for purposes of such determination that there is no change in the record ownership of the Corporation's securities from the record date for such approval until such reorganization and that such record owners hold no securities of the other parties to such reorganization):
- (3) Approval by the stockholders of the Corporation of the sale of substantially all of the Corporation's business and/or assets to a person or entity which is not a Subsidiary;
- (4) Any "person (as such term is used in Section 13(d) and 14(d) of the Exchange Act) (other than a person having such ownership at the time of adoption of this Plan) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing more than 50% of the combined voting power of the Corporation's then outstanding securities entitled to then vote generally in the election of directors of the Corporation; or
- (5) During any period not longer than two consecutive years, individuals who at the beginning of such period constituted the Board cease to constitute at least a majority thereof, unless the election, or the nomination for election by the Corporation's stockholders, of each new Board member was approved by a vote of at least three-fourths of the Board members then still in office who were Board members at the

beginning of such period (including for these purposes, new members whose election or nomination was so approved).

(j) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(k) "Commission" shall mean the Securities and Exchange Commission.

(l) "Committee" shall mean the Board or a committee appointed by the Board to administer this Plan, which committee shall be comprised only of two or more directors or such greater number of directors as may be required under applicable law, each of whom (i) in respect of any decision at a time when the Participant affected by the decision may be subject to Section 162(m) of the Code be an "outside director" within the meaning of Code Section 162(m) and (ii) in respect of any decision at a time when the Participant affected by the decision may be subject to Section 16 under the Exchange Act, shall be a "Non-Employee Director" within the meaning of Rule 16b-3(b)(3).

(m) "Common Stock" shall mean the Common Stock of the Corporation and such other securities or property as may become subject to Awards, or become subject to Awards, pursuant to an adjustment made under Section 6.2 of this Plan.

(n) "Company" shall mean, collectively, the Corporation and its domestic or foreign Subsidiaries or divisions.

(o) "Corporation" shall mean International Game Technology, a Nevada corporation, and its successors.

(p) "Eligible Employee" shall mean an officer (whether or not a director) or key executive, administrative, managerial, production, marketing or sales employee of the Company.

(q) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

(r) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

(s) "Fair Market Value" or any date shall mean (i) if the stock is listed or admitted to trade on a national securities exchange, the closing price of the stock on the Composite Tape, as published in the Western Edition of The Wall Street Journal, of the principal national securities exchange on which the stock is so listed or admitted to trade, on such date, or, if there is no trading of the stock on such date, then the closing price of the stock as quoted on such Composite Tape on the next preceding date on which there was trading in such shares; (ii) if the stock is not listed or admitted to trade on a national securities exchange, the last price for the stock on such date, as furnished by

the National Association of Securities Dealers, Inc. ("NASD") through the NASDAQ

National Market Reporting System or a similar organization if the NASD is no longer reporting such information, (iii) if the stock is not listed or admitted to trade on a national securities exchange and is not reported on the National Market Reporting System, the mean between the bid and asked price for the stock on such date, as furnished by the NASD or a similar organization, or (iv) if the stock is not listed or admitted to trade on a national securities exchange, is not reported on the National Market Reporting System and if bid and asked prices for the stock are not furnished by the NASD or a similar organization, the value as established by the Committee at such time for purposes of this Plan.

(t) "Incentive Stock Option" shall mean an Option which is designated as an incentive stock option within the meaning of Section 422 of the Code, the award of which contains such provisions as are necessary to comply with that section.

(u) "Nonqualified Stock Option" shall mean an Option that is designated as a Nonqualified Stock Option and shall include any Option intended as an Incentive Stock Option that fails to meet the applicable legal requirements thereof. Any Option granted hereunder that is not designated as an Incentive Stock Option shall be deemed to be designated a Nonqualified Stock Option under this Plan and not an incentive stock option under the Code.

(v) "Non-Employee Director" shall mean a member of the Board of Directors of the Corporation who is not an officer or employee of the Company.

(w) "Non-Employee Director Participant" shall mean a Non-Employee Director who has been granted an Option under the provisions of Article VII.

(x) "Option" shall mean an option to purchase Common Stock granted under this Plan. The Committee shall designate any Option granted to an Eligible Employee as a Nonqualified Stock Option or an Incentive Stock Option. Options granted under Article VII shall be Nonqualified Stock Options.

(y) "Participant" shall mean an Eligible Employee who has been granted an Award under this Plan and a Non-Employee Director who has been received an Option under Article VII of this Plan.

(z) "Performance-Based Award" shall mean an Award of a right to receive shares of Common Stock or other compensation (including cash) under Section 5.2, the issuance or payment of which is contingent upon, among other conditions, the attainment of performance objectives specified by the Committee.

(aa) "Performance Goals" shall mean EPS or ROE or Cash Flow or Total Stockholder Return, and "Performance Goals" means any combination thereof.

(bb) "Performance Share Award" shall mean an Award of a right to receive shares of Common Stock made in accordance with Section 5.1, the issuance or payment of which is contingent upon, among other conditions, the attainment of performance objectives specified by the Committee.

(cc) "Personal Representative" shall mean the person or persons who, upon the disability or incompetence of a Participant, shall have acquired on behalf of the Participant, by legal proceeding or otherwise, the power to exercise the rights or receive benefits under this Plan and who shall have become the legal representative of the Participant.

(dd) "Plan" shall mean this 1993 Stock Option Plan, as amended and restated.

(ee) "QDRO" shall mean a qualified domestic relations order as defined in Section 414(p) of the Code or Title I, Section 206(d)(3) of ERISA (to the same extent as if this Plan were subject thereto), or the applicable rules thereunder.

(ff) "Restricted Stock Award" shall mean an award of a fixed number of shares of Common Stock to the Participant subject, however, to payment of such consideration, if any, and such forfeiture provisions, as are set forth in the Award Agreement.

(gg) "Restricted Stock" shall mean shares of Common Stock awarded to a Participant under this Plan, subject to payment of such consideration, if any, and such conditions on vesting and such transfer and other restrictions as are established in or pursuant to this Plan, for so long as such shares remain unvested under the terms of the applicable Award Agreement.

(hh) "Retirement" shall mean retirement with the consent of the Company, or in the case of a Non-Employee Director, a retirement or resignation as a director after at least eight years service as a director.

(ii) "ROE" shall mean consolidated net income of the Corporation (less preferred dividends), divided by the average consolidated common shareholders equity.

(jj) "Rule 16b-3" shall mean Rule 16b-3 as promulgated by the Commission pursuant to the Exchange Act.

(kk) "Section 16 Person" shall mean a person subject to Section 16(a) of the Exchange Act.

(ll) "Securities Act" shall mean the Securities Act of 1933, as amended from time to time.

(mm) "Stock Appreciation Right" shall mean a right to receive a number of shares of Common Stock or an amount of cash, or a combination of shares and cash, the aggregate amount or value of which is determined by reference to a change in the Fair Market Value of the Common Stock that is authorized under this Plan.

(nn) "Stock Bonus" shall mean an Award of shares of Common Stock granted under this Plan for no consideration other than past services and without restriction other than such transfer or other restrictions as the Committee may deem advisable to assure compliance with law.

(oo) "Subsidiary" shall mean any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Corporation.

(pp) "Total Disability" shall mean a "permanent and total disability within the meaning of Section 22(e) (3) of the Code and (except in the case of a Non-Employee Director) such other disabilities, infirmities, afflictions or conditions as the Committee by rule may include.

(qq) "Total Stockholder Return" shall mean with respect to the Corporation or other entities (if measures on a relative basis), the (i) change in the market price of its common stock (as quoted in the principal market on which it is traded as of the beginning and ending of the period) plus dividends and other distributions paid, divided by (ii) the beginning quoted market price, all of which is adjusted for any changes in equity structure, including but not limited to stock splits and stock dividends.

INTERNATIONAL GAME TECHNOLOGY
1993 STOCK OPTION PLAN

(Amended and Restated Effective as of August 27, 1996)
(Composite Plan Document Incorporating Amendments 1998-I, 1998-II, and 2000-I)

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EMPLOYMENT AGREEMENT

THIS AGREEMENT ("Agreement") is dated as of January 12, 2001, and is by and between IGT (the "Company"), and Maureen Mullarkey ("Executive").

WHEREAS, the Company desires to retain the services of Executive on the terms and subject to the conditions in this Agreement; and

NOW, THEREFORE, in consideration of the premises and the respective undertakings of the Company and Executive set forth below, the Company and Executive agree as follows:

1. Employment. The Company hereby employs Executive in the position of Senior Vice President and Chief Financial Officer, and Executive accepts such employment and agrees to perform services for the Company, for the period and upon the other terms and conditions set forth in this Agreement.

2. Term. The term of Executive's employment pursuant to this Agreement is set forth as follows: An initial period of employment shall commence on January 22, 2001 through February 28, 2001 ("Interim Period"). The term of Executive's employment pursuant to this Agreement shall be for a period of five (5) years, commencing on March 1, 2001 ("Commencement Date") to and including March 1, 2006, unless earlier terminated as provided in this Agreement (the "Term").

3. Compensation.

3.1 Base Salary. As compensation in full for the services to be rendered by the Executive under this Agreement, Company shall pay to Executive: (a) during the Interim Period, a base salary of \$1,000 per month; and (b) during the Term of this Agreement, a base salary of \$250,000 (the "Base Salary"). Base Salary shall be paid in accordance with the Company's normal payroll procedures and policies. Executive will receive minimum annual salary increases of \$15,000 during each year of the Term of this Agreement. Nothing in this Agreement shall preclude the Company from deciding to increase Executive's salary in greater amount. In March 2002, Executive will be considered for a promotion to Executive Vice President, and if Executive is promoted, salary increases and additional options commensurate with the promotion will be considered at that time.

3.2. Reimbursements. Executive will receive \$30,000 in reimbursement of moving and relocation expenses.

3.3 Bonus. Executive will be eligible to participate in the Company's management bonus program, and the bonus calculation shall not exceed 150 percent of the Executive's Base Salary in effect as of the end of the Company's fiscal year upon which the bonus is based. The bonus will be payable based upon the increase in operating profits before incentives over the previous

fiscal year, attainment of the Company's fiscal year ERP program goals, and various management objectives set by the Chief Executive Officer in consultation with Executive. For each year that a bonus is granted, the amount greater than 100 percent of Base Salary will be accrued, and payment deferred (the "Deferred

Bonus") for two years. For example, the Deferred Bonus for year one would be paid in year three, the Deferred Bonus for year two, if any, would be paid in year four and so on, so long as Executive remains with the Company. If Company decides not to continue Executive's employment at the end of the Term or pursuant to Paragraph 7.5 below, all Deferred Bonus amounts would be due and payable at that time.

3.4 Participation in Benefit Plans. Executive shall also be entitled to participate in all employee benefit plans or programs of the Company to the extent that her position, title, tenure, salary, age, health and other qualifications make her eligible to participate. The Company does not guarantee the adoption or continuance of any particular employee benefit plan or program during the Term, and Executive's participation in any such plan or program shall be subject to the provisions, rules and regulations applicable thereto.

3.5 Stock Options. Concurrent with the Commencement Date of this Agreement, the Company shall grant to Executive an option to purchase 100,000 shares of common stock of the Company, in accordance with the provisions of the Company's 1993 Stock Option Plan (the "Stock Options"). The Stock Options shall vest at a rate of 20 percent per year over a five-year period, and the grant price will be the closing stock price of the Company's common stock on January 22, 2001. In addition, on January 22, 2001, the terms of each stock option granted to Executive and outstanding on the date of Executive's July 2000 resignation from the Company (the "Prior Stock Options"), will be reinstated and (i) the vesting schedule of each such Prior Stock Options shall continue as though no termination of employment had occurred and (ii) the original term and termination of employment provision of such Prior Stock Options shall apply. Company is currently developing a management stock option bonus plan and if said plan is developed and put into place, Executive shall be eligible to participate in this plan commensurate with her position within the Company.

3.6 Withholding Taxes. The Company may withhold from any benefits payable under this Agreement, all federal, state, city or other taxes as shall be required to be withheld pursuant to any law or governmental regulation or ruling.

4. Confidential Information. Except as permitted or directed by the Company's Board of Directors or required by an order of a court having jurisdiction or under subpoena from an appropriate government agency, during the Term or at any time thereafter Executive shall not divulge, furnish or make accessible to anyone or use in any way (other than in the ordinary course of the business the Company or any of its respective affiliates) any confidential or secret knowledge or information of the Company which Executive has acquired or

become acquainted with or will acquire or become acquainted with prior to the termination of the period of her employment by the Company (including employment by the Company or any affiliated or predecessor companies prior to the date of this Agreement), whether developed by herself or by others, concerning any trade secrets, confidential or secret designs, processes, formulae, plans, devices or material (whether or not patented or patentable) directly or indirectly useful in any aspect of the business of the Company, any customer or supplier lists of the Company, any confidential or secret development or research work of the Company, or any other confidential information or secret aspects of the business of the Company. Executive acknowledges that the above-described knowledge or information constitutes a unique and valuable asset of the Company and represents a substantial investment of time and expense by the Company, and that any disclosure or other use of such knowledge or information other than for the sole benefit of the Company and its affiliates would be wrongful and would cause

irreparable harm to the Company. Both during and after the Term, Executive shall refrain from any acts or omissions that would reduce the value of such knowledge or information to the Company. The foregoing obligations of confidentiality, however, shall not apply to any knowledge or information which is now published or which subsequently becomes generally publicly known, other than as a direct or indirect result of the breach of this Agreement by Executive.

5. Ventures. If, during the Term, Executive is engaged in or associated with the planning or implementing of any project, program or venture involving the Company and a third party or parties, all rights with respect to such project, program or venture shall belong to the Company. Except as approved by the Company's Board of Directors, Executive shall not be entitled to any interest in such project, program or venture or to any commission, finder's fee or other compensation in connection therewith other than the salary to be paid to Executive as provided in this Agreement.

6. Noncompetition Covenant.

6.1 Agreement not to Compete. Executive agrees that during the term of this Agreement, Executive shall not, without the written consent of the Company's Board of Directors, directly or indirectly, engage in competition with the Company in any manner or capacity (e.g., as an advisor, principal, agent, partner, officer, director, stockholder, employee, member of any association, or otherwise) in any phase of the business which the Company is conducting during the Term, including the design, development, manufacture, distribution, marketing, leasing, financing or selling of accessories, devices, or systems related to the products or services being sold by the Company.

6.2 Geographic Extent of Covenant. The obligations of Executive under Section 6.1 shall apply to any geographic area in which the Company has engaged in business during the Term.

6.3 Non-Solicitation. Executive agrees that during the Term and for a period of 12 months thereafter, she will not, without the prior

written approval of the Company's Board of Directors, hire, solicit or endeavor to entice away from the Company or, following termination of Executive's employment, otherwise interfere with the relationship of the Company with any employee of the Company, or any person or entity who was, within the then most recent prior 12-month period, a customer, supplier or contractor of the Company or any of its affiliates.

7. Termination. This Agreement shall terminate in accordance with the following provisions:

7.1 Expiration of the Term. Unless earlier terminated in accordance with the provisions hereof, this Agreement shall terminate upon expiration of the five year Term as provided in Paragraph 2. After the expiration of the Term, the Company may continue the employment of Executive and Executive may accept the employment on an at will basis.

7.2 Death. If the Executive dies during the Term, this Agreement shall terminate, with the Termination Date being the date of the Executive's death.

7.3 Disability. If the Executive has been absent from service to the Company as required in this Agreement for a period of ninety (90) days or more during any one-hundred eighty (180) day period during the Term as a result of any physical or mental disability, the Company has the right to terminate this Agreement, the Termination Date being ten (10) days after notice thereof is given to Executive.

7.4 Termination by Company for Cause. The Company has the right to terminate this Agreement for Cause as defined herein, such termination to be effective immediately upon notice thereof from the Company to Executive. For purposes of this Agreement, "Cause" shall mean:

- o The willful and material failure of Executive to perform her duties hereunder (other than any such failure due to Executive's physical or mental illness), or the willful and material breach by Executive of her obligations hereunder; or
- o Executive engages in willful and serious misconduct that has caused or is reasonably expected to result in material injury to the Company; or
- o Executive is convicted of, or enters a plea of guilty or nolo contendere, to a crime that constitutes a felony; or
- o The failure or inability of Executive to obtain or retain any license required to be obtained or retained by her in any jurisdiction in which the Company does or proposes to do business.

7.5 Termination by Company Without Cause. If at any time the Company decides to terminate this Agreement for any reason without

Cause during the Term, it may do so under the following terms and conditions:

- o Company shall pay Executive a single lump sum severance payment equal to one year of Executive's Base Salary and any applicable Deferred Bonus. Such payment will be based upon the Base Salary in existence at the time of termination.
- o The Company will also pay the premiums for your health benefits under the Consolidated Omnibus Budget Reconciliation Act (COBRA) to the extent that you are eligible for COBRA benefits, for the shorter of a period of one year following your Termination without Cause or until you secure new employment.
- o In the event of death of Executive during the term of the Agreement, the one year of Base Salary and Deferred Bonus shall be paid to the estate of Executive or as she shall otherwise direct in writing.
- o Executive's Stock Options and Prior Stock Options described in Paragraph 3.5 above, shall have their vesting accelerated in full so as to become one hundred percent vested as of the date of termination.

7.6. Termination due to Change of Control. If at any time during the Term a third party acquires a controlling interest in the Company ("Change of Control"), Executive may at her discretion, elect to sever her relationship with the Company. In this instance, the provisions of Paragraph 7.5 above shall apply. A "Controlling Interest" shall be defined as a transfer of ownership of 40 percent or more of the outstanding shares of Company. In the event of a Change of Control of Company occurring while Executive is employed by

Company, Executive's Stock Options and Prior Stock Options described in Paragraph 3.5 above, shall have their vesting accelerated in full so as to become one hundred percent vested as of the date of the Change of Control.

8. Miscellaneous.

8.1 Governing Law. This Agreement and all rights and obligations hereunder, including, without limitation, matters of construction, validity and performance, is made under and shall be governed by and construed in accordance with the internal laws of the State of Nevada, without regard to principles of conflict of laws.

8.2 Amendments. No amendment or modification of this Agreement shall be deemed effective unless made in writing and signed by all of the parties hereto.

8.3 No Waiver. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel to enforce any provisions of this Agreement, except by a statement in writing signed by the

party against whom enforcement of the waiver or estoppel is sought. Any written waiver shall not be deemed a continuing waiver unless specifically stated, shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

8.4 Severability. To the extent any provision of this Agreement shall be invalid or unenforceable, it shall be considered deleted herefrom and the remainder of such provision and of this Agreement shall be unaffected and shall continue in full force and effect. In furtherance and not in limitation of the foregoing, should the duration or geographical extent of, or business activities covered by, any provision of this Agreement be in excess of that which is valid and enforceable under applicable law, then such provision shall be construed to cover only that duration, extent or activities which may validly and enforceably be covered. Executive acknowledges the uncertainty of the law in this respect and expressly stipulates that this Agreement be given the construction which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable law.

8.5 Assignment. This Agreement shall not be assignable, in whole or in part, by either party without the written consent of the other party.

8.6 Injunctive Relief. Executive agrees that it would be difficult to compensate the Company fully for damages for any violation of the provisions of this Agreement, including without limitation the provisions of Paragraphs 4 and 6 above. Accordingly, Executive specifically agrees that the Company shall be entitled to temporary and permanent injunctive relief to enforce the provisions of this Agreement and that such relief may be granted without the necessity of proving actual damages. This provision with respect to injunctive relief shall not, however, diminish the right of the Company to claim and recover damages in addition to injunctive relief.

8.7 Arbitration. Any controversy or claim arising out of or relating to this Agreement or breach thereof, shall be settled by arbitration in the State of Nevada in accordance with the Voluntary Labor Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. In reaching his or her decision, the arbitrator shall have no authority to change

or modify any provision of this Agreement.

IN WITNESS WHEREOF, Executive and the Company have executed this Agreement as of the date set forth in the first paragraph.

IGT

By: _____

G. Thomas Baker
President, Chief Executive Officer

EXECUTIVE

By: _____
Maureen Mullarkey