

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990

8672

6661 SENATE STATE AFFAIRS

1065

DOT&PF FISCAL ANALYSIS FOR

SENATE BILL NO. 146

EXPENDITURES

Personnel Services - added cost would be overtime needed to supervise the gaming devices on the three vessels. Estimate \$12.0 per ship - no added position would be created.

Contractual - there will be approximately \$10.0 cost to upgrade electrical service to handle the 12 machines on each vessel.

Supplies - miscellaneous supplies such as mounting devices to make the games sea worthy.

Revenue - there is no sure way to predict the revenue. We doubled the revenue we are currently making on the 25 video games that are installed at this time. \$150.0 should be a conservative figure.

International Game Technology

Linda J. Dunaway
Regional Sales Manager
Government Systems Group

520 South Rock Blvd.
P.O. Box 10580
Reno, NV 89510

Phone 702/688-0240
FAX 702/688-0668

International Game Technology

INTRODUCTION

We appreciate your interest in IGT -- recognized to be the industry leader in the design and manufacture of video lottery & gaming systems and equipment. Our hope is that the information contained in this packet will give you insight regarding our past and current operations, as well as our visions for the future. We look forward to acquainting you with our company and we stand ready to answer any questions you might have.

To acquaint you with the the Governmental Systems Division of IGT, this group provides liaison support and solutions to governmental bodies in North America, including state legislatures, lotteries, and other agencies. The Division is lead by Vice President Jerome Young, whose previous experience includes Product Marketing Specialist for IBM Corporation, Deputy Director of Operations for the Ohio Lottery Commission, and Vice President of Sales for Syntech International, a leading manufacturer and supplier of on-line lottery systems.

Your contact with IGT is Ms. Linda Dunaway, Regional Sales Manager for the western United States and Canada. With four years of Sales & Marketing experience in the U.S. Regional & International Sales Division of IGT, Ms. Dunaway is prepared to answer any questions you might have regarding the company and its products & systems.

It is our privilege to meet with you; we appreciate your time and interest. In this and future meetings, we look forward to learning more about your operations and specifically about the needs which IGT can address and fulfill.

* * * * *

International Game Technology

FACT SHEET

Corporate Headquarters:

International Game Technology
520 South Rock Boulevard
Reno, Nevada 89502
Phone: (702) 688-0100
Telex: 170485IGTRNO
FAX: (702) 688-0120 (Corporate)
(702) 688-0247 (Sales)

Executive Officers:

- William S. (Si) Redd - Chairman Emeritus
- Charles N. (Chuck) Mathewson - Chairman and Chief Executive Officer
- John J. (Bud) Russell - President & Chief Operating Officer
- G. Thomas Baker - Chief Financial Officer/Vice President
Finance/Administration
- Raymond D. Pike - Senior Vice President & General Counsel
- Peter Dickinson - Senior Vice President Engineering
- Bob Bittman - Vice President Marketing
- Mike Brown - Vice President Operations
- Bob McMonigle - Vice President Sales
- Jerome A. Young - Vice President Governmental Systems

Company History:

- A-1 Supply founded by Si Redd, 1975
- A-1 Supply became SIRCOMA (SI Redd COin MACHines), 1979
- SIRCOMA became International Game Technology with an initial public offering in October, 1981

Subsidiaries:

- IGT (Australia) Pty., Limited
286-288 Coward Street
Mascot, N.S.W., 2020: Australia
Phone: (02) 669-3000
Telex: AA120565
FAX: (02) 669-3779
Dean McClain, Managing Director

● Electronic Data Technologies (EDT)

Las Vegas:

1085 Palms Airport Drive
Las Vegas, Nevada 89119-3715
Phone: (702) 361-1510
FAX: (702) 361-0838
Bill Dukes, President

Reno:

4900 Energy Way
Reno, Nevada 89502
Phone: (702) 688-5650
FAX: (702) 688-5659
Ray Brown, President Gaming Operations

● CMS

520 South Rock Boulevard
Reno, NV 89502
Phone: (702) 323-5060
FAX: (702) 788-6792
Ed Stevenson, President & CEO

Manufacturing Plants:

- Reno, Nevada
- Sydney, Australia

Distributors:

- Atlantic City Coin and Slot Service Company
14 W. Mulberry Avenue
Pleasantville, New Jersey 08232
Phone: (609) 641-7811
FAX: (609) 641-6854
Mac Seelig, President
- Casino Coin (a division of Eurocoin Limited)
Fortune House, Moxon Street
Barnet Herts, England EN5 5SD
Phone: (01) 449-0077
FAX: (01) 449-7217
TELEX: 266016
- IPG Indo Pacific Gaming
Asia:
P.O. Box 57
Crows Nest N.S.W. 2065 Australia
Phone: (02) 906-1810
FAX: (02) 906-2228 or (02) 439-2157
TELEX: SECCO AA 2546

Africa:

Fortune House, Moxon Street
Barnet Herts, England EN5 5SD
Phone: (01) 449-0077
FAX: (01) 449-7217
TELEX: 266016

- Ludi S.F.M.
c/o Le Royal Riviera
3, Avenue Jean-Monnet
06230 Saint-Jean-Cap-Ferrat, France
Phone: 93,01,16.13
FAX: 93,01,23,55

Financial and Capital Fiscal 1989

- \$104,640,000 product sales
- \$ 27,209,000 gaming and route operation revenues
- \$152,073,000 gross revenues
- \$ 20,224,000 CMS revenues
- \$170,233,000 total assets as of September 30, 1989
- \$ 6,868,000 expended on research and development in fiscal 1989

Machines Produced Annually:

<u>YEAR</u>	<u># of units</u>
● 1982	4,812
● 1983	4,670
● 1984	4,698
● 1985	7,143
● 1986	9,645
● 1987	11,875
● 1988	13,404
● 1989	18,708

Current Product Lines:

- S-Plus
- S-Slot Mini Bertha
- Player's Edge-Plus upright series
- Player's Edge-Plus Slant-Top-Bar
- Player's Edge-Plus Drop-In-Bar
- Fortune II Double Screen Keno
- Video Mini Bertha
- Colossus Slot
- Megabucks
- Quartermania

Product Placements:

- 60,000-plus machines in virtually every major casino throughout Nevada, Atlantic City and the world.

Auxiliary Products:

- Progressive meter displays
- Bill Acceptors
- Player/Group tracking systems (EDT Gaming Management Systems)
- Slot Information Systems (SIS) (EDT Gaming Management Systems)
- Computerized Keno (EDT)
- Pick Bingo (EDT)
- Casino Furnishings (seating, bars, slot stands, ect.)
- Casino message units

Customized Services:

- Custom screen printing of slot machine glass
- Custom video graphics
- Casino interior design service
- Training schools for casino slot technicians

Employees:

- 1,064 personnel in engineering, manufacturing, operations, service and marketing divisions (including subsidiaries)
- 228 trained service specialists
- 141 research and development professionals
- 45 quality control experts

Square Footage

- 328,408 square feet encompassing manufacturing, engineering, warehousing and administrative operations.

Vehicle Fleet:

- More than 90 service and route vehicles, allowing radio-dispatched service 24 hours a day, seven days a week.

Sales and Service Offices:

- Reno, Nevada (702) 688-0100
- Las Vegas, Nevada (702) 798-7878
- Elko, Nevada (702) 738-3676
- Hialeah, Florida (305) 821-7375 (Int'l Cruise Ships)
- Missoula, Montana (406) 728-2292
- Billings, Montana (406) 652-8466
- Wellington, New Zealand (64) 432-4247

Service Offices:

- Laughlin, Nevada (702) 754-3517
- Stateline (Lake Tahoe), Nevada (702) 882-3337

Revised: 02/7/90

International Game Technology

IGT HISTORICAL OVERVIEW: A COMMITMENT TO QUALITY

International Game Technology (IGT) is the world leader in the design and manufacture of slot machines, video gaming equipment and a variety of specialty casino devices.

IGT offers the broadest product line of any gaming manufacturer. The Nevada-based company's slogan, "We Make The Games People Play And Play And Play," reflects the high quality, innovative engineering and player appeal found in each IGT machine.

Working closely with casino management, IGT's engineers and marketing representatives have created a complete line of spinning reel slot machines and video gaming products that increase casino profits and entertain gaming customers. From the popular S-Plus series of reel-type slot machines and the colorful Player's Edge-Plus video poker machines, to its unique Megabucks, Quartermania and Power Poker area-wide progressive systems, IGT's commitment to innovation is reflected in its research and development.

The company employs 1,064 persons, including 171 in administrative positions, 75 in sales and 141 in engineering research and development.

IGT's vast product variety includes the Player Edge-Plus poker line, S-Plus slot series, Fortune II Double Screen Keno, Player's Edge bar (available in flat and slant top versions), Stepper Mini-Bertha and Colossus slots. Every product is characterized by tremendous player appeal, sophisticated security, competitive pricing, reliability and strong earning power for the casino.

William S. (Si) Redd founded the company in 1975 as A-1 Supply and changed the name to SIRCOMA in 1979. IGT came into existence as a publicly traded company (NASDAQ: IGAM) in 1981.

Reporting \$98.7 million in sales for fiscal year 1988, the company has assets of \$127.8 million. In 1988 IGT manufactured 13,404 machines, an increase of 11.6 percent over 1987. By quickly meeting the changing

needs of the legalized gaming marketplace, the corporation's history is marked by growth and product achievement.

During the early 1980s, IGT was recognized for generating widespread popularity for its innovative video draw poker machines. The company has established itself as a world leader in both video and reel-type gaming machine technology, and is responsible for revolutionary gaming concepts like Megabucks, Quartermania and Power Poker. While IGT continues to dominate the video poker market with its Player's-Edge series, the technologically advanced S-Plus product line has brought about the company's leadership role in reel slot productions. These electronic microprocessor-controlled reel-type slot machines have been strongly received in the domestic and international markets.

"With the S-Plus slots there's no wear, tear or heat as with the old mechanical machines," says Bob Bittman, IGT vice president of marketing. "New technology has allowed us to make machines that are more secure and reliable. Reprogramming a machine for different games can be done in a matter of minutes so casinos can provide customers with the most popular and appealing games. The machines can be easily linked into progressive jackpot packages for additional player excitement."

Currently, more than 70,000 IGT machines are operating in virtually every major casino gaming market in the world. IGT is highly visible throughout Nevada with sales and/or service offices in Las Vegas, Reno, Lake Tahoe, Laughlin and Elko. IGT also has satellite offices serving cruise ships in Florida, gaming outlets in Montana and the New Zealand market.

The company has exclusive distributorship agreements with Atlantic City Coin and Slot for the New Jersey and Caribbean markets; Casino Coin, a company based in England, represents IGT throughout most of Europe; Ludi SFM Ltd, represents IGT in France; and Indo Pacific Gaming (IPG), with offices in London and New South Wales, services Asia and Africa.

IGT's wholly owned subsidiary in Sydney, Australia - IGT (Australia) Pty., Limited - operates a complete engineering, manufacturing and distributing facility in the most important gaming machine market outside of the United States. Since beginning manufacturing operations in October 1986, IGT Australia has captured 50 percent of all gaming machine sales.

In August 1988 "CMS" was established as a wholly owned subsidiary of IGT to develop and manage certain gaming operations for IGT. CMS currently manages the Treasury Club and Silver Club in Sparks, Nev., King's Casino on the island of Antigua in the Caribbean and the El Capitan in Hawthorne, Nev.

Electronic Data Technologies, a Nevada-based corporation, develops and manufactures information and player tracking systems which monitor the activity of slot machines on a real-time basis. EDT also operates one of the largest gaming machine routes in Nevada. EDT was wholly owned by IGT until October 1987, when EDT completed a public offering of 700,000 shares of common stock. In August 1989, another public offering of 1,083,478 shares reduced IGT's ownership in EDT to 43 percent.

IGT also owns 9.9 percent of the outstanding shares of Syntech International common stock and has warrant to purchase one million shares of common stock at \$9 per share. Syntech, a publicly traded company, is engaged in the design, manufacture, sales and operation of government-sponsored lottery transaction processing systems.

IGT's Chief Executive Officer Charles Mathewson views IGT's future as focusing on its strengths. "We're dedicated to remaining the industry leader in video and reel slot sales, while continuing to commit our resources to innovation within the gaming industry," Mathewson noted.

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TUESDAY, SEPTEMBER 12, 1989

Business Day

The New York Times



The New York Times/The Associated Press

Charles N. Mathewson, chairman of International Game Technology, considered the most technologically adept of the gaming machine companies.

Slot Machine Maker Hits Jackpot

International Game Offers Big Payoffs

By RICHARD W. STEVENSON

Special to The New York Times

RENO — Charles N. Mathewson, a successful investor from California, was at a golf tournament here six years ago when he noticed people lined up to play a video poker game at the Reno Hilton. Intrigued, he checked the machines for the name of the manufacturer and bought some stock in the company, International Game Technology.

Today Mr. Mathewson is International Game's chairman and chief executive, and his interest in the company has proved well justified. More than any other company, International Game has capitalized on the rapidly growing popularity of slot machines and other gaming machines among gamblers and casinos. Unprofitable as a niche player in the business four years ago, International Game has seized the industry's

No. 1 position both in the United States and around the world since Mr. Mathewson stepped in to manage the company in early 1986.

"International Game Technology absolutely dominates the slot machine business," said Willard Brown, an analyst at Dean Witter Reynolds.

Moved Past Competitor

In some extent, the company's success reflects the difficulties encountered during the middle of this decade by the Bally Manufacturing Corporation, which for years was the largest and most respected of slot machine builders. Industry executives say that Bally was slow to adopt the computer technology that revolutionized gaming machines in the early 1980's, and that the company encountered quality control problems, giving International Game an opening.

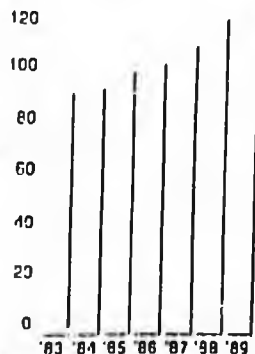
"Bally kind of fell asleep," said Michael Gaughan, the president of the Gold Coast and Barbary Coast casinos in Las Vegas.

International Game has also benefited from the weakening in recent years of the dollar against the yen, which has put price pressure on the company's other major competitor in

Continued on Page C4



Total number of slot machines in Nevada in the second quarter of each year, in thousands.



Source: Nevada Gaming Control Board

The New York Times Page 12 1989

Slot Machine Maker Surges With New Games

Continued From First Business Page

the United States, the Universal Company of Japan.

Innovative Products

But mostly International Game has become successful by developing what analysts and industry executives say are the most innovative and reliable products in the business and establishing a reputation as the most technologically adept of the gaming machine companies.

Moreover, it did so as slot machines were overtaking table games to become the single largest gaming activity in casinos in Nevada and Atlantic City. In 1978, 35 percent of the dollar volume of legal gambling in Nevada went through slot machines. Last year the figure was nearly 60 percent.

Gambling experts attribute the shift largely to the gaming industry's success at reducing its reliance on high rollers, who favor dice and card games, and increasing the appeal of casinos to the mass market — generally people who are reluctant to bet large amounts and who are reassured by the relative simplicity of operating slot machines.

Odds Improved

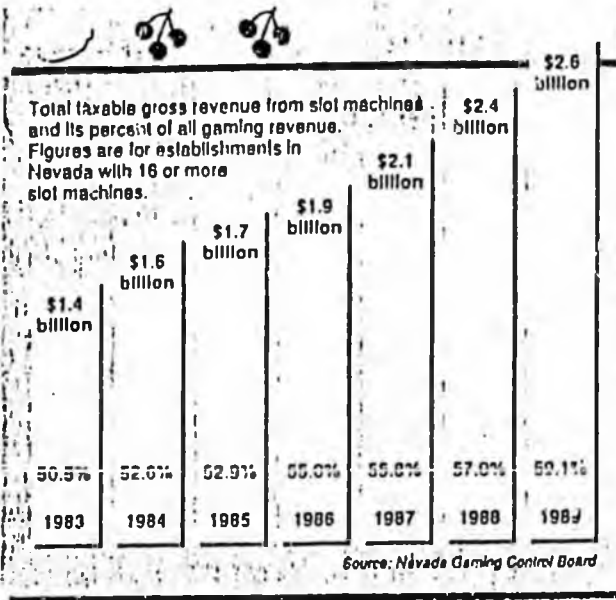
Machines have also shed their image as offering the worst odds in the house. Because of the intense competition among casinos for slot players, most machines return at least 85 to 90 percent of bettors' money in the form of jackpots, which is often better than the odds for an average player in a card game like 21, for example.

"The lowly slot machine is now the lifeblood of the casino industry," Mr. Mathewson said.

International Game contends it has 65 percent of the gaming machine market in Nevada, which has more slot machines than any other place in the world, and 50 percent of the worldwide market.

The company, which had revenues of \$52.1 million three years ago, should finish the year ending Sept. 30 at nearly three times that size, with sales of close to \$150 million. The company lost money until last year, when it earned \$8.4 million. In the nine months ended June 30 this year, International Game had net income of \$7.6 million, and should post a sizable earnings gain for the year.

The company expects to sell as many as 19,000 machines worldwide this year, up 35 to 40 percent from last year, Mr. Mathewson said, and nearly triple the unit volume of two years ago. Sales are being driven by the construction of several casinos in Las Vegas as well as by the trend among many casinos to give more floor space to slot machines. The median price for a slot machine is \$5,000, and at a successful casino a



The New York Times/Sept. 12, 1989

'The lowly slot machine is now the lifeblood of the casino industry.'

new machine pays for itself in months, analysts say.

[The company has been hot on Wall Street, as well. Its stock price, which dipped as low as \$7 early last year, closed Monday at \$31.50 in over-the-counter trading.]

The company seemed far less attractive four years ago, when Mr. Mathewson, who by then had a 16.8 percent stake in the company, took day-to-day control from a management headed by William S. Reed, a longtime gaming executive. Although it had staked out a position as a leader in the fast-growing field of video poker games and had a reputation for technical prowess, the company was losing money, had high costs, and according to some employees was poor at salesmanship and unable to mesh its technological skill with its production capabilities and marketing needs.

Mr. Mathewson and the new managers beefed up marketing efforts, forced engineers to become more responsive to what customers wanted and then promised to get out of the way of operating managers.

"They brought to the company a different management philosophy,

which was to give good people the latitude to do their jobs," said Peter Dickinson, the company's senior vice president for engineering, who had been with the company before Mr. Mathewson's arrival. "We're more vibrant technologically because we have the freedom to pursue things without a lot of meddling from the top."

The primary example of technical creativity is the company's use of technology it had developed for a now-discontinued state-run lottery system in Nebraska. The system linked machines all over the state in a single network that could instantaneously update to all locations the total size of the payoff as it increased with each lottery ticket purchased. After overcoming some knotty problems with insuring the system's security and reliability, International Game adopted it several years ago for use as a network of interlinked slot machines installed in more than 100 casinos around Nevada.

Called Megabucks, the system combines the \$1 to \$3 bets made by gamblers into a "progressive" pool that grows until someone hits the jackpot, much as in a lottery. While the machines continue to pay off small bets, flashing signs at each location advertise the pool's growing size second by second. The minimum payoff is \$1 million, and the largest to date has been \$6.8 million. Another version of the game, called Quartermania, requires bets of only 50 cents and has a minimum payoff of \$200,000. There is also a video poker version.

The games have proved to be among the most popular in years both

with gamblers and with casinos. And they are also quite profitable for International Game. In Nevada, where it owns the Megabucks slot machines itself instead of selling them to the casinos, the company keeps a few cents of every dollar bet in the progressive system, with the casinos also getting part of the take. But it also makes money by paying the winner over 20 years and investing the Jackpot in Government bonds in the meantime.

Last month, gaming regulators in New Jersey approved Megabucks for use in Atlantic City. The system is expected to be operating there by the end of the year, and Mr. Mathewson said all or most of the casinos there — possibly including the one owned by Bally, his slot machine rival — are expected to feature the game. In Atlantic City, gaming regulations preclude International Game from sharing in the proceeds of the betting or paying out the jackpot itself, so the company will make money there by leasing the machines to the casinos and charging a management fee.

"International Game is the only company in the world with an inter-casino progressive game," Mr. Brown at Dean Witter said. "It would take a competitor years to develop the technology."

Mr. Brown thinks the company will use the technology to get back into the state lottery business, another fast-growing industry.

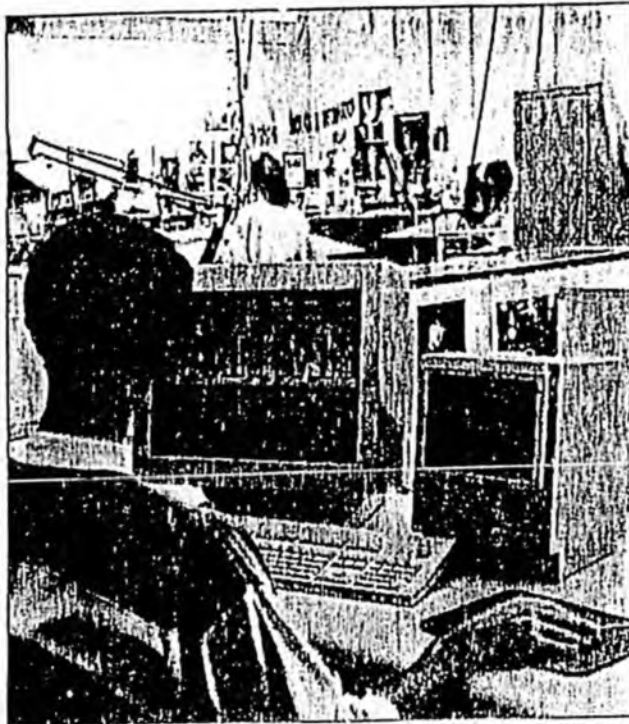
Mr. Mathewson said the company's annual research and development budget of \$6 million to \$7 million was more than the rest of the industry's combined. Casino executives say the company's machines set a new standard in reliability in recent years, although they say Universal and Bally have since caught up. But they say International Game remains particularly good at developing new games in a business where gamblers quickly grow tired of old machines.

Among the company's innovations: a slant-topped machine with a seat, a design widely copied by competitors.

International Game also owns a 28 percent stake in a small company called Electronic Data Technologies. Electronic Data has developed a system that allows casinos to track the slot machine play of individual gamblers by issuing magnetic cards that the gamblers insert in the machines they use.

Casinos, which try endlessly to steal each other's customers and hold on to those they have, use the cards to attract gamblers in slot-machine clubs, which reward frequent play with bonus points that can be redeemed for free gifts — gambler's version of a frequent flier program. International Game plans to sell a further portion of its stake in Electronic Data to the public.

Mr. Mathewson is watching the global growth of casinos. The company has a manufacturing plant in



The New York Times/Mark Savage

Computer artist trainees at International Game Technology in Reno. International Game says it has 65 percent of the gaming machine market in Nevada and 50 percent of the worldwide market.

Australia, which has a sizable and growing casino industry. Mr. Mathewson has hopes for France, where only a handful of the 150 casinos have slot machines, and he is intrigued by the Soviet Union, which sees casinos

as an appealing way to gather foreign currency.

Close to home, he is monitoring states like Ohio and Indiana, which are studying the idea of introducing casinos to raise revenue.

3-12-90
Met w/ Linda Dunaway &
Dan Sullivan

Suggested putting video gaming under
charitable provisions to
make it more palatable to Leg.

Stressed much video gaming going on in
state now (Elks Club, etc.)

cost @ \$5000/machine

provided model legislation.

Technology IGT uses: Would hope to
provide all machines in state, hook
to master computer - daily audit
reports. IGT would run ^{for state} for a small fee.

Pull tabs very non-secure form of
gaming (lots of room for abuse) -
video gaming very secure.

Model Leg. drafted
by IGT

~~CONFIDENTIAL~~

AN ACT TO AMEND THE EXECUTIVE LAW AND THE PENAL LAW, IN RELATION TO THE ENACTMENT OF THE VIDEO GAMING MACHINE LAW, THE CREATION OF THE STATE GAMBLING COMMISSION AND MAKING AN APPROPRIATION THEREFOR.

VIDEO GAMING MACHINE LAW*

§101. State Gambling Commission.

1. There is hereby created in the executive department a state gambling commission which shall consist of five members all of whom shall be citizens and residents of the State and shall have been qualified voters in this State for a period of at least one year preceding their appointment. Not more than three members shall belong to the same political party.

2. No member of the commission shall hold any other public office either of the State or the United States.

3. Each member shall be appointed by the Governor for six years, provided, however, that of the members first appointed, one shall be appointed for a term of two years, one for a term of three years, one for a term of four years, one for a term of five years and one for a term of six years. Their successors shall be appointed for terms of six years.

4. The Governor shall designate one of the members as chairman.

5. The chairman shall, when present, preside at all meetings, and in his absence a member designated by the chairman shall preside.

6. Three members of the commission shall constitute a quorum, and any action or order of the commission shall require the approval of at least three members, except that initial licensing shall require a quorum and the approval of at least four members.

7. Each member of the commission shall receive compensation fixed by the Governor within the amount made available by appropriations therefor. In addition, all members shall receive actual and necessary expenses incurred by them in the performance of their duties.

8. Vacancies in the commission, occurring otherwise than by expiration of term, shall be filled for the unexpired term in the same manner as original appointments.

9. There is established within the commission the

*(This can be modified to include all gaming devices if so desired)

office of director. The director shall be appointed by the commission to serve at the pleasure of the commission. The director shall not be a member of the commission nor hold any other public office. The director shall be the chief administrative officer of the commission and shall have the responsibility for carrying out the decisions and actions of the commission, for administering all affairs of the commission in accordance with its rules and regulations, and have such other powers and duties as shall be delegated by the commission.

10. The director shall receive an annual salary to be fixed by the commission within the amount made available by appropriation therefor, and in addition, he shall be entitled to receive reimbursement for expenses actually and necessarily incurred by him in the performance of his duties.

11. Except as provided by law, and at the discretion of the commission, the director may appoint a deputy and such other officers and employees as he may determine necessary for the efficient operation of the office, and shall prescribe their powers and duties, fix their compensation and provide for reimbursement of their expenses within amounts appropriated therefor. Legal counsel shall be provided by the State Attorney General's Office.

§102. Powers and Duties of the Commission. The commission shall have the power and it shall be its duty to:

1. Establish licensing criteria, licensing procedures and fees for the placement of video gaming machines;

2. Prescribe forms of application for licenses and amendment of licenses;

3. License approved persons and establishments permitting the placement of video gaming machines by approved persons in such establishment;

4. Prescribe the type of games to be conducted;

5. Prescribe the use of video gaming machines or mechanical or electronic devices of any kind, and supervise the placement of same;

6. Monitor the use, maintenance and service of video gaming machines;

7. Report to the appropriate authority, and person, association or corporation liable to prosecution or conviction for unlawful activity or for violation of any provisions of this article;

8. Issue subpoenas or subpoenas duces tecum, administer oaths and examine witnesses under oath, for the purpose of investigating any matter within the jurisdiction herein prescribed for the purpose of aiding the commission in enforcing the provisions of this article. Such subpoenas shall be issued in the name of the commission. Such subpoenas may be served by any enforcement agent, special investigator or by any police or peace officer;

9. Establish procedures to provide that all monies received by licensees from wagering less the amount, if any, retained by such licensees for profit or paid off to winners, be deposited to the commission's credit in banks, banking houses or trust companies designated by the commission; and

10. Prepare and promulgate rules and regulations necessary to implement all provisions of this article.

§103. Enforcement Agents. The commission shall designate such of its employees as enforcement agents as it shall deem necessary who shall have the following powers and duties:

1. Investigate, after the filing of an application for a license, the qualifications of each applicant, to determine the merits of each application;

2. Ascertain that the applicant and persons or members of any organization associated with such applicant, bearing directly upon such application are persons of good moral character and have never been convicted of a felony crime, or any crime involving any gaming laws or moral turpitude;

3. Investigate all of the officers and each of the stockholders who hold 10 percent or more of issued stock, concerning any corporation leasing premises to any applicant where video gaming machines are to be placed to ascertain that such officers and stockholders are persons of good moral character and have never been convicted of a felony crime, or any crime involving any gaming laws or moral turpitude;

4. Notwithstanding the provisions of Subdivisions 1 through 3 of this section, no licensing investigation shall be undertaken prior to the submission of an application together with an initial deposit as specified by the commission to be applied against the cost of the investigation;

5. Investigate fraud, deceit, misrepresentation or any unlawful conduct concerning the operation, maintenance, or placement of gaming or amusement machines;

6. Report to the commission in writing concerning any person, association or corporation liable to prosecution or conviction for unlawful activity or for violation of any provision of this article; and

7. Carry out any and all directions of the commission to implement the provisions of this article.

§104. Issuance of License. The burden is upon each applicant to demonstrate his suitability for licensure. The commission must first issue a video gaming machine license for any premises operated as a resort, licensed liquor establishment, club, or hotel upon which a video gaming machine is to be placed and made available to the public, provided, however that:

1. No license application shall be acted upon for final consideration by the commission until the applicant has reimbursed the commission for the full cost, including agent time and expenses, of the investigation.

2. Each licensed liquor establishment or club shall possess a valid liquor license issued by the state liquor authority in effect during the application for and issuance of a video gaming machine license and at all times thereafter during which a video gaming machine is made available to the public for play;

3. Except as otherwise specifically authorized by the Commission, no licensed liquor establishment or club shall be licensed for more than ~~ten~~ ^{twenty} video gaming machines for any single license; and

*4. [Except as otherwise specifically authorized by the Commission, hotels or resorts shall be licensed for the number of video gaming machines in relation to the number of qualifying sleeping units in such hotel or resort as follows:

<u>Minimum Number of Rooms</u>	<u>Maximum Number of Machines Permitted</u>
50	10
100	20
200	40
300	50
400	60
500	70
1000	150
1500	225
2000 or more	at the discretion of the commission]

*Optional

§105. Suspension and Revocation of License.

1. Any license issued by the commission pursuant to this article may be revoked, cancelled or suspended in the manner prescribed in this section.

2. The commission may on its own initiative or on complaint of any person, institute proceedings to revoke, cancel or suspend any license after hearing at which the licensee shall be given an opportunity to be heard; except in emergency circumstances warranting immediate suspension, in which circumstances a hearing shall be had as soon as practicable following the suspension and such suspension must be authorized by not less than four commission members. Such hearings shall be held in such manner and upon such notice as may be prescribed by the rules of the commission.

3. A license may be suspended or revoked by the commission for the following reasons:

a. Conviction of the licensee, or any officer, key employee or principal shareholder of the licensee, of an offense defined in this Act or in the penal law of this State or the United States Code;

b. Failure to file any return or report or to keep records required by the commission or violation of any regulation of the commission;

c. Failure to pay any tax required by any article of the tax law; or

d. Fraud, deceit, misrepresentation or conduct prejudicial to public confidence in the fair and honest operation of video gaming machines.

§106. Gaming machine use by minor; prohibited.

1. No licensee shall cause or permit any minor under the age of 21 years to use or play a gaming machine.

2. Any licensee who knowingly permits a minor to use or play a gaming machine shall be liable upon conviction, to a fine not to exceed \$5,000.

§107. Licensing and Registration; Video Gaming Machines and Service Industries.

1. Every individual, corporation, contractor, subcontractor or partnership offering a licensee goods or services on a regular basis which directly relate to the manufacture, modification, distribution, sale, operation, maintenance or security of video gaming machines, shall be licensed and registered pursuant to rules and regulations of the commission.

2. Every video gaming device model offered for play shall first be investigated and approved pursuant to the

Regulations of the Commission, and each machine offered in this state for play shall conform to an approved model. Each such approved model must include, at a minimum:

a. Conform to all requirements of federal law, including FCC Emissions Standards.

b. Must theoretically pay out a mathematically demonstrable percentage of all amounts played, which must not be less than 80%. Lottery games which may be affected by skill must meet this standard when using a method of play which will provide the greatest return to the player over a period of continuous play.

c. Must use a random selection process to determine the outcome of each play of a game. The random selection process must meet 95% confidence limits using a standard chi-squared test for [randomness] goodness of fit.

d. Must display an accurate representation of the game outcome.

e. Must not automatically alter pay tables or any function of the device based on internal computation of hold percentage.

f. Must exhibit total immunity to human body electrostatic discharges on all player-exposed areas.

g. The random number generator and random selection process must be impervious to influences from outside the device and must use appropriate communication protocols to protect the random number generator and random selection process from influence by affiliated equipment, such as the central site monitoring equipment.

h. Must be capable of detecting and displaying the following conditions during idle states or on demand: power reset, door open, door just closed, inappropriate coin-in if the appropriate coins in are not returned.

i. The program residing in the device must be contained in a storage media which is not alterable through any use of the circuitry or programming of the device itself.

j. Must have the capacity to display complete play history (outcome, intermediate play steps, credits available, bets placed, credits payed and credits cashed out) for the most recent game played and one game prior thereto.

k. The control program must check for any corruption of random access memory locations used for crucial gaming device functions including, but not limited to, information pertaining to the play and final outcome of the two prior games, random number generator outcome, credits available for play, and any error states. These memory areas must be checked for corruption following game initiation but prior to display of the game outcome to the player. Detection of any uncorrectable corruption shall be deemed to be a game malfunction and must result in a tilt condition.

l. The game must incorporate a non-volatile memory device other than a battery backed up device, that is to store crucial game accounting meters and game options. This device is to be attached to the cabinet in such a way that it will remain with the cabinet of the machine in the event that the game controlling processor circuit board is removed and replaced. The game controlling program must use the information contained in this device if the device contains valid data and the data does not match the data in the game controlling processor boards memory.

m. The device must check for any corruption of the non-volatile memory that is attached to the cabinet of the machine. This memory must be checked on every power up and any read conditions. Detection of any uncorrectable corruption shall be deemed to be a game malfunction and must result in a tilt condition.

n. The theoretical payback percentage of a device must not be capable of being changed without making a hardware or software change in the device.

o. All devices must be equipped with the following electronic digital storage meters: "in," "out," and "drop." The value of these meters are in units equal to the denomination of the device, and must be at least 6 digits in length. The game must provide the means for on-demand display of stored information.

p. Device "in" meters must accumulate all coin and credit transactions that result in wagers. The "out" meters must accumulate all coin and credit transactions paid by the gaming device for winning combinations. The "drop" meters must accumulate the number of coins that have been diverted into a drop bucket.

q. Devices must be designed so that replacement of parts or modules required for normal maintenance does not necessitate replacement of the electromechanical meters.

r. Devices must have an electronically stored digital meter of at least 3 digits for the number of plays since power on and the number of plays since door closure. When

the maximum value has been reached, the meters must remain at that value until reset by occurrence of the appropriate event. The device must provide the means for on-demand display of the stored information.

s. Electronically stored meter information required by this section must be preserved for a minimum of 72 hours after a power loss to the device.

t. Collectible credits may be accumulated from wins or from approved currency acceptors. Collectible credits may be accumulated directly from coin or token acceptance if the gaming device uses a coin/token acceptor that accepts or rejects on the basis of the metallic composition of the coins being used.

§108. Local Option.

1. No video lottery machine shall be placed in any county unless and until a proposition therefor submitted at a general or special election in such county shall be approved by a vote of the majority of qualified electors in such county voting thereon.

2. A proposition for the placement of video gaming machines in a county shall be placed upon the ballot at any such election if a petition signed by 200 qualified electors of such county shall be filed with the county board of elections.

§109. Distribution of Revenues.

1. Revenues derived from video gaming machines by the State shall be held by the commission until such time as they are distributed.

2. The revenues to the State from the licensing and operation of the video gaming machines shall be distributed to the State general fund, except that 40 percent of said revenues shall be allocated to the local county general fund in the participating county from which the revenues are derived.

§110. Distribution of Proceeds.

1. The commission shall set the winning payoff percentage for all video gaming machines licensed in the State. However, at no time shall the average theoretical payoff percentage be less than 83 percent to the player.

2. The State shall receive ¹⁵~~7~~ percent of ^{net machine income.} all monies wagered.

3. The balance, if any shall be retained by licensees. Only a person licensed pursuant to §104 or §107 above may share in the revenue of video gaming machines.

§111. Exemption from Penal Law. The penal law is amended to exclude from its prohibition any manufacture, sale, distribution and operation of video gaming machines pursuant to this article. Such activity is specifically declared exempt from the provisions of 15 U.S.C. §§1171-1177, affecting the shipment of gaming devices in interstate commerce.

§112. Definitions.

1. "Club" means an organization of persons incorporated pursuant to the provisions of the not-for-profit corporation law or the benevolent orders law, which is the owner, lessee or occupant of a building used exclusively for club purposes and is operated solely for a recreational, social, patriotic, political, benevolent or athletic purpose but not for pecuniary gain.

2. "Commission" means the state gambling commission as created by this article.

3. "Hotel" means a building which is regularly used and kept open as such in a bonafide manner for the feeding and lodging of guests.

4. "Licensed liquor establishment" means a place which is duly licensed for, and regularly and in a bonafide manner is used and kept open for, the serving of liquor by the drink to guests for compensation.

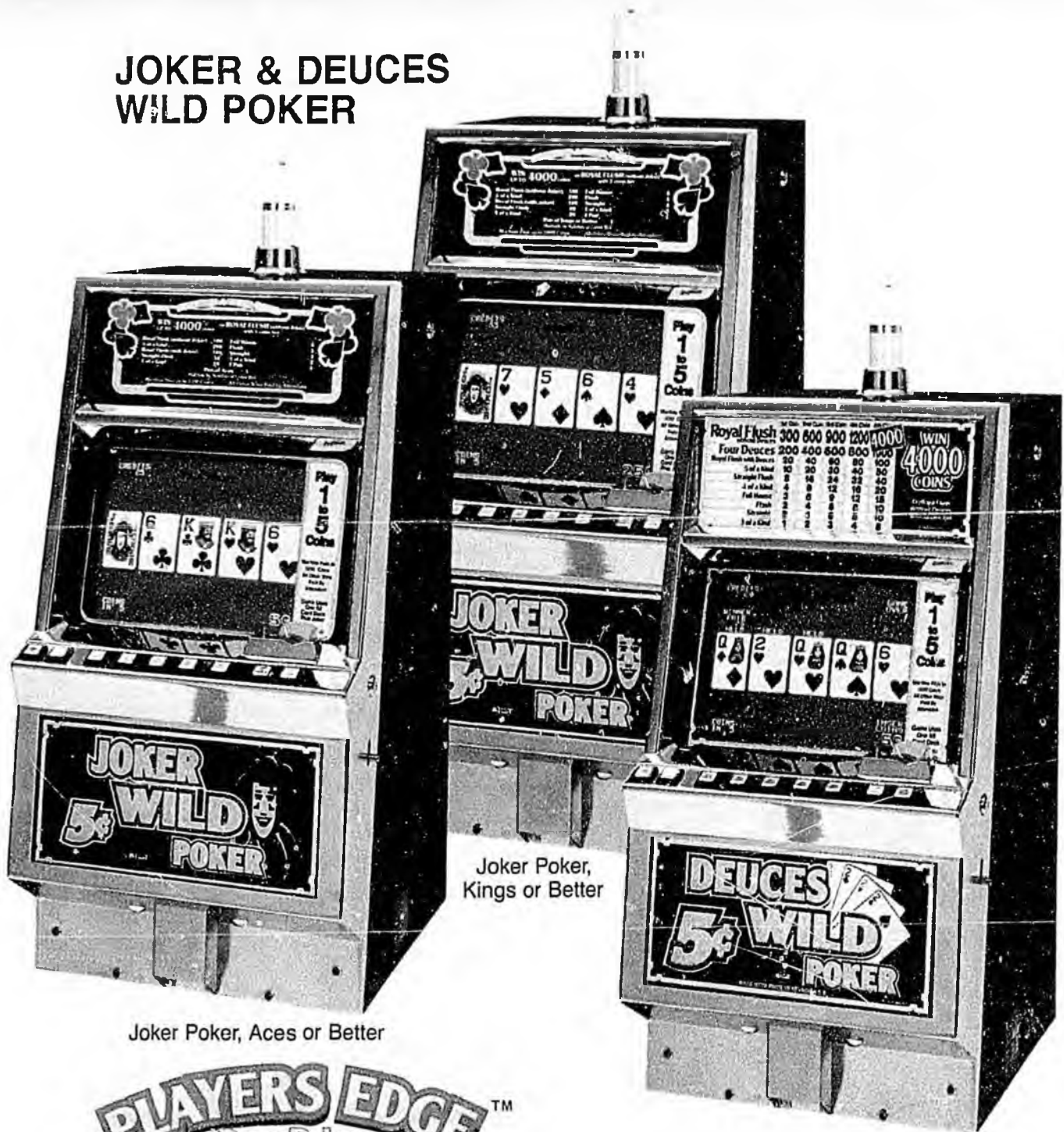
5. "Participating counties from which revenues are derived" means counties wherein any gross revenues from the licensing of video gaming machines originate.

6. "Participating county" means any county that elects through the local option provisions of this article to permit the licensing of video gaming machines by the commission within its boundaries.

7. "Resort" means an establishment that, in addition to providing lodging and other services customarily associated with the business of hostelry, as devoted substantial space to public recreational pursuits, both indoors and outdoors, such as dining, entertainment, sports, theaters, dance halls, swimming pools, tennis courts, golf courses, riding stables and such other activities as are normally associated with recreation and vacation that are beyond the requirements of mere transient guests.

8. "Video gaming machine" means any electronic device displaying a game through the use of a video screen and that receives coins or tokens or other evidence of value for the opportunity to win predominantly through the element of chance, more coins or tokens or valuable prize of any nature whatsoever, whether or not they are received immediately, succeeding play or subsequent thereto.

JOKER & DEUCES WILD POKER



Joker Poker, Aces or Better

Joker Poker, Kings or Better

Deuces Wild Poker

PLAYERS EDGE™
Draw Poker

The Player's Edge series from IGT preserves that classic image that has become a casino standard for video equipment. Inside, however, are the latest advancements you expect from the company known world wide as the leader in gaming technology.

Player's Edge makes many common options easily selectable by casino management, without a program change. Service and maintenance have been virtually eliminated, and a blend of updated hardware and software provides the utmost in security.

We encourage you to buy the best video gaming equipment in the world... and it's Made in America!



International Game Technology

Player's Edge Poker

A full complement of poker programs are available in the Player's Edge machine. In addition to conventional draw poker, a variety of Joker Poker and Deuces Wild programs are also available.

Credit play and link progressive capabilities are standard features in this model.

Player's Edge is compatible with Electronic Display Technology's (EDT) Action System, which integrates a Slot Information, Player Tracking and Group Tracking System into an on-line data collection and reporting network.

PROGRAM DESCRIPTIONS

Joker Poker, Aces or Better

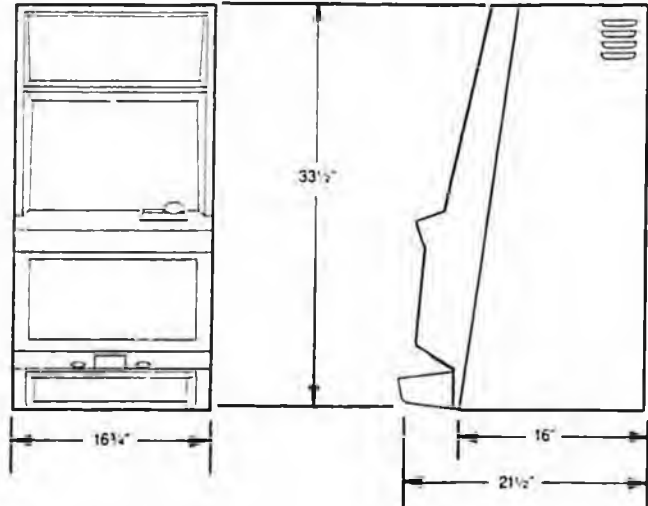
A Draw Poker game with the added player appeal of a joker in the deck. This program also returns a player's bet on a pair of aces. An enticing program to the Joker Poker player.

Joker Poker, Kings or Better

A program that not only offers the player appeal of a wild joker, but also returns a player's bet on a pair of Kings or better. This game offers both the player and the house a money making proposition.

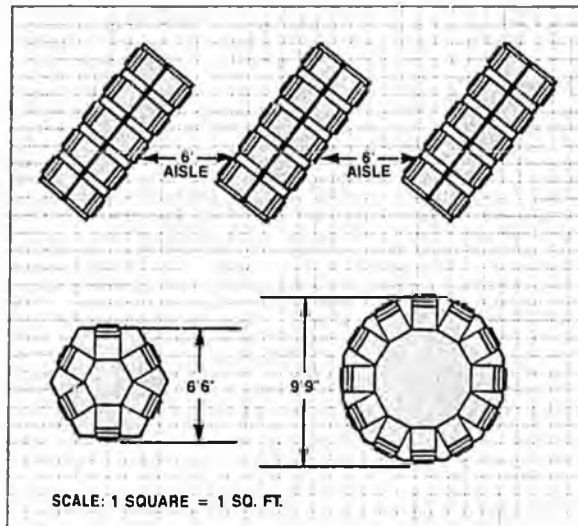
Deuces Wild

A video version of the classic "Deuces Wild" draw poker game. An excellent way to increase both the drawing power and earnings of the video poker section of your floor.



Specifications:

- Height: 33 1/2" (85.1 cm)
- Width (Base): 16 3/4" (42.6 cm)
- Depth (Base): 16" (40.6 cm)
- Depth (to front of coin tray): 21 1/2" (54.6 cm)
- Power Requirements: 115/220/240 Volts—50/60 Hz
1.5A idle, 3.5A hopper running (at 115V/60Hz)
- Weight: 144 lbs. (65.5 kg)
- Stand Width: 24" (61 cm)
- Recommended Stand Height: 26" (66 cm)



International | Game Technology

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FAX: (01) 449-7217. TELEX: 266016



PLAYER'S EDGE DRAW POKER



**MONTANA
POKER**

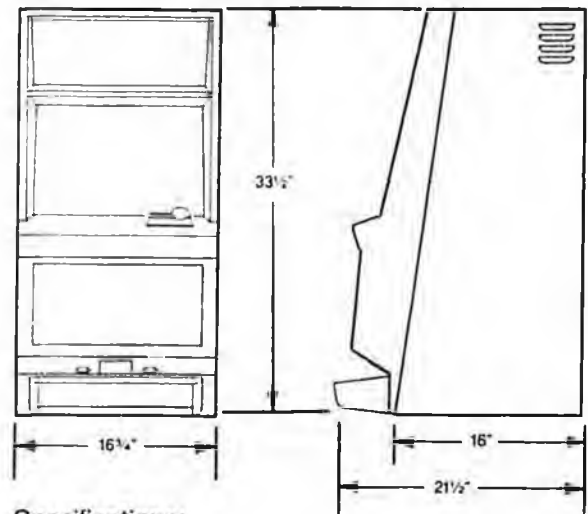
PLAYER'S EDGE POKER

A casino style draw poker machine, specially designed for Montana. All the appeal of a classic Nevada casino game, including the expanded security and accounting features that have become gaming industry standards. The rugged all-metal cabinet, dual coin entries, sturdy printer and the most static-proof electronics available combine to provide you with a reliable money making poker machine.

Service and maintenance are virtually eliminated. A blend of updated hardware and software technology provides the utmost in reliability. Within its all-steel cabinet is an exceptionally modular design; meaning less parts and easy access to all components.

Player's Edge uses the same type of safety paper ticket stock you've come to expect from IGT. Your profits are too important to fall prey to counterfeit tickets.

When players are looking for the best poker game in town, offer them an edge—IGT's Player's Edge. Your answer to casino style gaming.



Specifications:

Height: 33 1/2"

Width (Base): 16 3/4"

Depth (Base): 16"

Depth (to front of tray): 21 1/2"

Power Requirements: 115 Volts—60 Hz—1.5A

Weight: 145 lbs.

Recommended Stand Width: 24"

Recommended Stand Height: 26"

PLAYER'S EDGE POKER FEATURES

- Classic casino poker look
- Available in Draw Poker and 'Joker Poker' versions
- Heavy steel cabinet
- Dual coin entries
- Preprinted safety ticket stock to discourage counterfeiting
- Switch selectable 'attract mode'
- Player prompted hold cards
- Fast credit entry by holding 'Play Credits' button
- Auto re-bet of previous wager
- Recall of previous game results
- Separate locked areas for electronics and cash compartment
- Easily removable 'Two Day' brand printer
- Optional Electronic coin acceptor
- Enhanced card and graphic displays
- Battery backup for memory maintenance during power failure
- Static proof electronics
- Printer clock easily set using player switches
- Play up to 8 credits per game
- Video or printed ticket display of bookkeeping information
- Easy ticket paper change

IGT-MONTANA, Inc.

Northwest 5339 — #7

Highway 93

Florence, Montana 59833

Telephone: (406) 273-2666

Telefax: (406) 273-2661



International Game Technology

520 South Rock Blvd. • Reno, Nevada 89502
(702) 323-5060



International Game Technology

MONTANA KENO

A casino style Keno machine, specially designed for Montana. All the appeal of a classic Nevada casino game, including the expanded security and accounting features that have become gaming industry standards. The rugged all-metal cabinet, dual coin entries, sturdy printer and the most static-proof electronics available combine to provide you with a reliable money making Keno machine.

Service and maintenance are virtually eliminated. A blend of updated hardware and software technology provides the utmost in reliability. Within its all-steel cabinet is an exceptionally modular design; meaning less parts and easy access to all components.

Keno uses the same type of safety paper ticket stock you've come to expect from IGT. Your profits are too important to fall prey to counterfeit tickets.

When players are looking for the best Keno game in your town, offer them an edge - IGT's Keno. Your answer to casino style gaming.

KENO FEATURES

- Classic casino Keno look
- Heavy steel cabinet
- Dual coin entries
- Preprinted safety ticket stock to discourage counterfeiting
- Switch selectable "attract mode"
- Player friendly keypad number selection
- Fast credit entry by holding "Play Credits" button
- Auto re-bet of previous wager
- Recall of previous game results
- Separate locked areas for electronics and cash compartment
- Easily removable "Two Day" brand printer
- Optional electronic coin acceptor
- Enhanced Keno card and graphic displays
- Battery backup for memory maintenance during power failure
- Static proof electronics
- Printer clock easily set using player switches
- Play 2 to 10 spot Keno cards
- Play up to 8 credits at a time, maximum win \$800.00
- Video or printed ticket display of bookkeeping information
- Easy ticket paper change
- Enhanced diagnostic test modes, added self-test inputs and outputs test, CRT Test
- Bill acceptor capability



1	2	3	4	5	6	7	8	9	10
14	2	2	5	2	2			2	2
42	6	6	30	12	5	3	10	10	6
			110	65	15	15	35	12	5
				400	125	125	125	12	12
					400	400	400	75	200
							400	400	400
								400	400

WIN UP TO
800
 PER GAME
 MAXIMUM WIN
 PER CARD
 25.00 CREDITS
 OR 3.00
 HELPFUL HINTS BY
 NUMBER OF
 CARDS PLAYED

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	✓	18	19	20
21	22	✓	24	25	26	27	28	29	30
31	32	✓	34	35	✓	38	39	40	
GAME OVER									
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80

CLOSURE
 CARDS PLAYED 8 SPOTS MARKED 8 HITS 3 CREDIT 132

Play
 1 to 8
 Cards
 NEED
 TO BE
 READY
 TO
 PLAY
 WITH
 THE
 CREDIT
 METER
 FULL
 AT
 ALL
 TIMES

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80

WIN UP TO
800
 PER GAME
 MAXIMUM WIN
 PER CARD
 25.00 CREDITS
 OR 3.00
 HELPFUL HINTS BY
 NUMBER OF
 CARDS PLAYED





PLAYER'S EDGE-PLUS DRAW POKER





PLAYER'S EDGE-PLUS

The Player's Edge-Plus is IGT's new generation of leading-edge video gaming technology — the direct descendant of the popular and high-earning Player's Edge.

Player's Edge-Plus combines the classic look of IGT's video poker with the industry's most advanced electronic innovations. The result is a completely flexible machine. One that possesses an extraordinary ability to attract players, while providing uncompromised security and extreme reliability.

Player's Edge-Plus accommodates virtually any application. It accepts the full spectrum of IGT video poker programs, paytables and game versions (such as Deuces Wild, Jokers Wild, and Double Draw Poker). Plus the expanded memory processing capacity of its on-board computer and extra serial ports can easily drive a variety of options for increased player appeal — such as three-level progressives, bill acceptors, enhanced sound packages, and embedded progressive meters.

- Progressive flexibility
 - Stand-alone or link progressive capability
 - Capable of up to six levels of progressive meters (RBP format)
 - Up to 32 digits of inlaid progressive meter capability
- Upgraded coin handling
 - Choice of electronic or mechanical coin acceptors
 - Will handle up to 50mm (1.97") diameter (\$5.00) coin or token
 - Three stage optical coin-in/anti-stringing sensor
- Bill acceptor capability
- Enhanced sound package available
 - Jackpot sounds ■ Door open alarm
 - Credit sound ■ Mechanical bell capability
 - Ascending credit tones
 - Selectable musical melodies
- Enhanced electronics with computer grade video monitor
- E² memory retains accounting data and machine set-

- up modes in the event battery backed CMOS memory is cleared or fails
- 64K EPROM and 8K RAM will drive a variety of player options
- Credit play features
 - Standard credit
 - Non-credit
 - Player initiated credit
 - Eurocredit (where legal)
 - Accepts from one to 9,999 coins-in as credits
 - Automatic bet repeatability
- "Double Up" option available on poker games
- Choice of standard three-meter package (coin-in, coin-out, coin-drop) or up to six (6) of the hard (mechanical) meters:
 - coin-in ■ cancelled credits ■ jackpot
 - coin-out ■ credits played ■ games played
 - coin-drop ■ credits won ■ credits paid
- Accounting system compatible — including the Electronic Data Technology (EDT) Gaming Management Systems, which integrates a slot information, group of tracking and player tracking system into an on-line data collection and reporting network.
- Accommodates internal or external mounted EDT Player Tracking card reader.
- Real time clock capability.
- Audit printer or ticket printer capability (requires special software).

Without a program change, a technician can select the following poker features:

- Denomination
- Maximum coins played per game: 1-20, 1-100
- Paytable on or off-screen
- Monitor background color
- Maximum hopper pay: 300, 400, 600, 1000, or customer selectable
- Deal speed: .3 seconds to 2.9 seconds for a 5-card deal
- "Double-Up" option on winning hands
- Sound: tones, music, or no sound
- Animated video symbols
- Progressive or non-progressive play
- Switch selectable game percentage software (where approved)

The versatility of the Player's Edge-Plus has an added dimension of being easily converted. By simply changing glass, program, switch panel, and in the case of a video slot adding or removing a handle, the machine can be converted to a poker, "21", or video slot machine.

Due to the advanced design of the hardware and software, service and maintenance are virtually eliminated. The refined modular design of the Player's Edge-Plus results in an extremely reliable machine.

- Fewer electrical connections mean improved circuit integrity
- Low internal operating temperatures resulting in longer component life



- Self-test mode assists technician in locating problems
 - Long-life, low-maintenance hopper
 - Single board microprocessor and motherboard
 - Computer grade monitor
 - Coin acceptor can be easily removed to clear jams
- Constant internal surveillance prevents undetected tampering. Suspect occurrences, such as the following, are displayed on the monitor:
- On-screen accounting, security, and winning hand meters
 - Hopper tilts
 - Door openings
 - Power interruption
 - Coin-in/coin-out timeouts
 - Last game verification of original hand, final hand and "Double-Up" hand (if played)
- With all its built-in flexibility, the Player's Edge-Plus gives you the competitive edge to immediately adapt to changing trends in the gaming market place. This results in a greater ability to attract more players and increase your bottom line.
- One more advantage of the Player's Edge-Plus is the organization behind it. As the world leader in gaming technology, IGT's sales and service centers and exclusive distributors reach around the world.
- At IGT, we keep making the games people play. And play. And play.

SPECIFICATIONS:

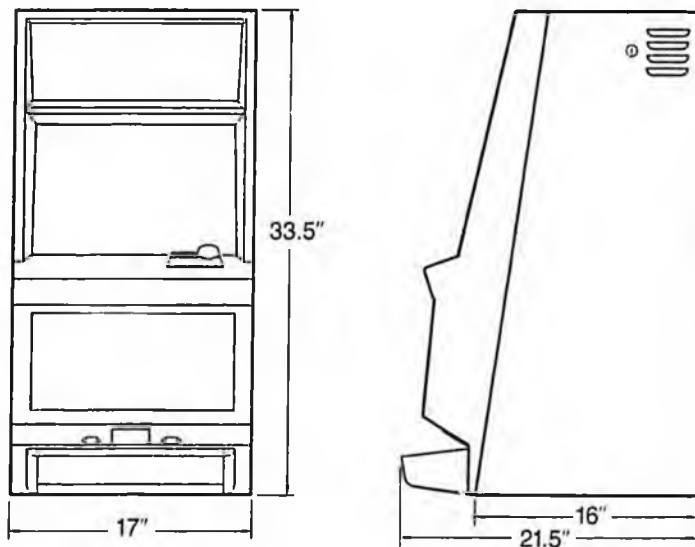
POWER CONSUMPTION

Line Voltage	115VAC	220VAC
Idle (Avg.)	1.3 AMPS	.7 AMPS
Hopper On (Avg.)	4.0 AMPS	2.5 AMPS

Line Frequency: 50/60 Hz

SHIPPING INFORMATION

Weight	Shipping Container Size
155 lbs (69.75 kg)	43"x25"x25" (109.2cm x 63.5cm x 63.5cm)



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IGT-MONTANA, INC.: Northwest 5339-#7, Highway 93
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Casino Coin, Ltd.
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IPG Indo-Pacific Gaming

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We Make The Games People Play.
And Play. And Play.

DROP-IN BAR and SLANT-TOP UNITS



SLANT-TOP

DROP-IN BAR

PLAYERS EDGE™
Plus

The *fourth* generation of high earning, hard working video products from the world leader in gaming technology. These advanced Drop-In Bar and Slant-Top units feature all-new designs inside and out which provide greater earning power, reliability and security. Feature by feature, Player's Edge-Plus is the best video gaming machine buy on the market.

Players find these models especially comfortable, and we've preserved the appealing IGT video game look. Increased security and convenient operation are achieved with a separate high capacity locked drop box. Inside is the most powerful and flexible, yet extremely reliable, microprocessor technology available in any gaming machine. Service access is easily gained from the top *and* front... *plus* the monitor, coin-in handling, hopper and PC boards are packaged as independent modules for immediate replacement, without tools, and zero downtime.



International Game Technology
World Leader in Gaming Technology

THE 36XX/37XX SERIES

The Player's Edge-Plus Drop-In Bar and Slant-Top units allow you to "open up" your floor, while creating unique profit opportunities in areas that may currently be unproductive. Maximum space utilization translates into increased gaming revenues. These machines make it possible to design a slant-top cabinet, bar or cocktail table to fit your decor and space requirements.

Player's Edge-Plus features a greatly expanded memory processing capacity—64K of program memory and 8K of data memory—PLUS E² memory that provides a redundant circuit to existing battery backed-up CMOS.

These models accept the full complement of popular Player's Edge poker programs, as well as new and enhanced Player's Edge-Plus programs.

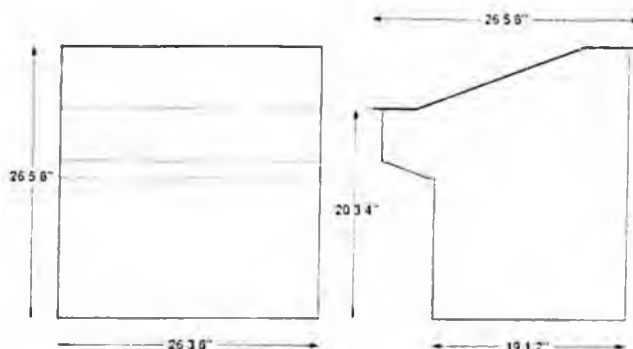
Stand alone and link progressive capabilities are *standard* in this model. And it is compatible with the Electronic Data Technologies (EDT) Gaming Management Systems.

No other gaming machine is as flexible as Player's Edge-Plus. PLUS its future expandability to satisfy unforeseen future applications makes this model an exceptional value for today and tomorrow.

Features and Options

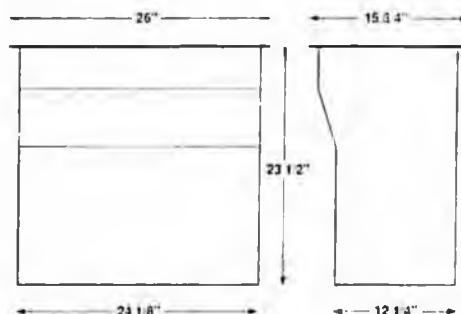
- Computer grade monitor has 10° slope for player comfort.
- Up to six level Rapid Bonus Progressive (RBP) capability
- "All Win" progressive capability
- Up to six hand (mechanical) meters
- Eurocredit (unlimited coin-in) accepting 1-9,999 coins as credit and automatic bet repeat
- Electronic coin acceptor
- Double Up option on winning hands
- Door open alarm
- Switch selectable game percentage software (where legal)
- Audit printer compatible
- Enhanced sound package
- Bell capability
- Real time clock compatible

Many features and/or options must be specified at the time of ordering and require Player's Edge-Plus software for operation. Also, certain aspects may vary, dependent upon the jurisdiction. Certain options may involve extra costs.



Slant-Top Specifications:

- Height: 26 5/8" (67.6 cm)
- Width: (Top): 26 3/8" (67 cm)
- Width (Enclosure Base): 26 3/8" (67 cm)
- Depth (Top): 26 5/8" (67.6 cm)
- Depth (Enclosure Base): 19 1/2" (49.5 cm)
- Power Requirements: 115/220/240 Volts—50/60 Hz
1.5A idle, 3.5A hopper running (at 115V/60 Hz)



Drop-In Bar Specifications:

- Height: 23 1/2" (59.7 cm)
- Width: (Top): 26" (66 cm)
- Width (Enclosure): 24 1/8" (61.3 cm)
- Depth (Top): 15 3/4" (40 cm)
- Depth (Enclosure Base): 12 1/4" (31.1 cm)
- Power Requirements: 115/220/240 Volts—50/60 Hz
1.5A idle, 3.5A hopper running (at 115V/60 Hz)



International Game Technology

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Casinocoin

Old Fold Lane; Barnet, Herts. England EN5 4QN
Phone: (01) 449-0077
FAX: (01) 449-7217. TELEX: 266016

International Game Technology

SPORTS BOOK POKER

A New Player's Edge-Plus Slant Top

IGT's Sports Book Poker* gives your customer the option of viewing sporting events or playing poker by simply pressing a button.

This machine was designed for casino race and sport book areas. It allows race/sports bettors to play video poker between events. It also turns the non-event hours of the race/sport lounge into a revenue-producing area.

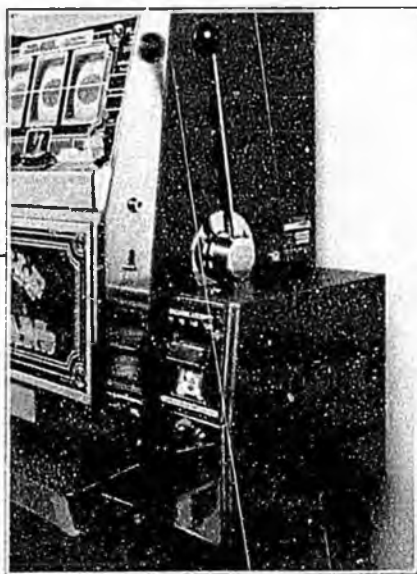
FEATURES:

- **Player's Edge-Plus Slant Top Bar**
 - Wide selection of the most popular poker programs
 - Computer grade monitor with a 10 degree slope for enhanced player comfort
 - Electronic coin acceptors
- **Accepts NTSC (National Television Standards Committee) broadcast video signals.**
 - Accepts signals from satellite receivers, video cassette recorder, video disc and television camera.
- **Customer-initiated game selection**
 - The customer can return the machine to the broadcast event by pressing the "SELECT" button
 - The broadcast event can not be selected if a poker game is in progress
 - The customer can return to poker by pressing the "SELECT" button, inserting coins into the machine or playing credits accumulated from previous games.
- **If no broadcast video signal is detected by the machines after a time period chosen by the sports book operator, the machine will return to poker.**
 - The sports book operator may choose a time period of 13 seconds or 64 seconds.
- **The sports book operator has the option of setting the machines to poker play only or broadcast only.**
- **The machine can be set to automatically return to poker if the broadcast event has been viewed for a time period chosen by the sports book operator, or remain in poker or event mode until the customer chooses to select the other mode.**
 - The sports book operator has the choice of selecting a seven-minute or twenty-minute period.

* Patent Pending



BILL ACCEPTOR



We Make The Games People Play.
And Play. And Play.

FEATURES:

Validator Is Rowe model OBA-4

- Validator accepts \$1, \$5, \$10 and \$20 bills
- Bill position and properties are validated by four optical and one magnetic sensor
- Anti pull-back lever will not allow a bill that has been validated to be pulled from the validator
- All invalid bills are returned to the customer
- One-year Rowe factory warranty
- In the event of a malfunction, error codes are displayed on LEDs located on the validator processor board

Modular design of acceptor assembly promotes easy service

- Acceptor tray assembly provides quick access to the validator, stacker motor and electronics
- Bill jams are easily cleared through the validator access door
- In the event of a malfunction, the acceptor will assist in diagnosis
 - Light remains on during machine malfunctions
 - Light flashes during validator malfunctions
 - Light turns off when the validator will accept bills

Removable collection box is designed to hold more than 100 bills. The collection box remains locked when it is removed from the acceptor assembly.

The acceptor will work in two modes:

- **Change Mode:** The machine/acceptor assembly acts like a change machine. The validator will not accept bills if a game is in process or if the hopper is empty
- **Credit Mode:** When a bill is accepted, credits are accumulated on the credit meter. The validator will not accept bills if a game is in progress, or if there are credits on the credit meter.

Two types of soft accounting meters — resettable and cumulative — provide up-to-date accounting information

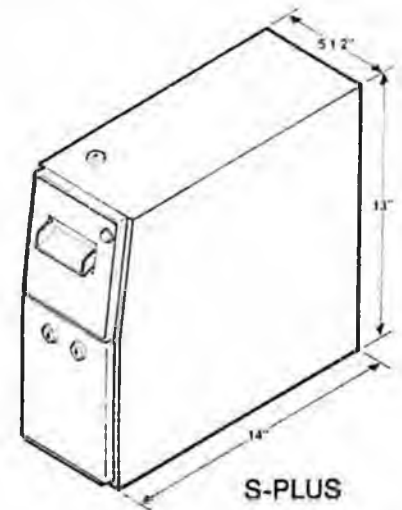
Meters:

- \$1 bills in
- \$5 bills in
- Total number of bills in
- Number of coins dispensed or credits collected
- \$10 bills in
- \$20 bills in

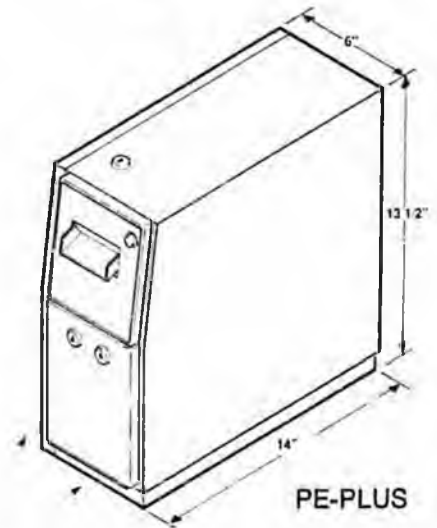
Security features:

- The acceptor and collection box are housed within a solid steel casing
- The acceptor assembly will accept up to five locks
 - One on the validator module maintenance door
 - Two on the collection box access door
 - Two on the collection box
- The last five bills accepted can be verified through soft meters
- In the event of a machine or validator malfunction, the validator will not accept bills
 - If the validator is out of service, the machine remains playable
- The accounting meters are maintained in E² and CMOS. Therefore in the event of a power failure, CMOS error, program failure or replacement of the processor board, the integrity of the meters will be maintained.

SPECIFICATIONS



S-PLUS



PE-PLUS

— Spacers are required on the PE-Plus version to allow easy access and maintenance of the Bill Acceptor.

	S-PLUS	PE-PLUS
Height	13"	13 1/2"
Width	5 1/2"	6"
Depth	14"	14"



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TELEX: SECCO AA25468

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**EXCERPTS FROM A SPEECH BY JEFF RENNER
CITY ADMINISTRATOR, BELLEVUE, NEBRASKA
AT THE 12TH NATIONAL CONFERENCE ON PUBLIC GAMING
PALM BEACH, FLORIDA - SEPTEMBER 6, 1984**

*To put the economic successes of the Bellevue lottery in perspective, this city, with a population of 32,000, began the experiment with a \$500,000 deficit, and a year later had a surplus of \$1.5 million. Seventy-seven percent of the citizens of Bellevue approved of the lottery. Before video lottery was initiated, the city looked at all forms of lotteries, and chose video to make more money. In eleven months, the city's lottery brought in gross income of \$38.8 million, which included the initial startup from 15 video lottery terminals, gradually building to today's 268 units. It might be noted that 50 percent of the license plates observed at lottery locations were from outside of the city, implying significant new sources of income.

The city's share of this revenue was \$1.75 million in 11 months, with \$2 million expected in the 12 months period. Against this income, the city had zero expense and zero investment.

The law in Nebraska reads that only 10 percent of the gross income from the lottery can go to expenses, and at least 65 percent must go to players. The city decided that a 65 percent video lottery would not be successful and chose an 85 percent pay-back to the players. Douglas County, which includes Omaha and has a population of 400,000 (more than ten times that of Bellevue) grosses less than Bellevue with their paper lottery and shut down the lottery due to losses. With the income Bellevue is receiving from their share of the lottery proceeds, it would need no property taxes.

Besides the income and tax relief Bellevue receives from video lottery, employment has increased substantially during the period of the lottery and Bellevue became the leading metropolitan area in the state by a factor of four in terms of economic activity. \$1.4 million from lottery proceeds were made in direct payments to the operating locations or agents. There was a tremendous increase in day tourism from, for instance, Iowa and Missouri.

Other benefits included the entertainment made available to the public, lowered property taxes, and increased services. Bellevue is the only city where the citizens stand in line to pay taxes, and love it! A survey of players was conducted, and every category of player in terms of sex, age, and income, favored video lottery. The overall results were 61 percent in favor, 15 percent no opinion, and 24 percent opposed.

The \$25,000 to \$35,000 middle to upper income players were the biggest supporters. It was not the poor or the wealthy who were playing. IGT was very supportive of the lottery, was interested in the community, and hired in the community. This vendor relationship made a big difference in the success of the lottery.

The disadvantages included the daily press which constantly emphasized all of the bad things that were to happen. The most incredible development from this lottery experiment is that the social problems were exactly zero:

- o There was no increase in crime - we had a decrease in crime.
- o There was no gambling away of paychecks.
- o There was a decrease in unemployment.
- o The lottery was felt to be a form of entertainment and it was harmless.
- o The lottery diverted funds from the illegal sector to the legal sector, i.e. it was new money coming into the legal economy.

From Michael Jones' speech concerning the Illinois lottery, we understand that their gross revenues are approximately \$1,000 per unit per week. During the entire 11 month period of the Bellevue lottery, our gross receipts were \$3,500 per machine per week. Recently our income has increased to \$4,200 per week, four times that of Illinois! This favorable experience may be due to a difference in philosophy in that our games are quick, they are simple, and they are traditional, non-amusement games which include a Flash Card, or Numbers, game, which is like Tic-Tac-Toe, as well as Keno and Poker.

Players want to play quick and know quickly if they have won or lost. Another possible factor is that we have had one year of experience versus one month in Illinois.

In summary:

1. The Nebraska lottery was an unqualified success.
2. There was a complete lack of problems including social problems, and there was an actual decrease in crime.
3. The lottery was simple, it was efficient, being totally computerized, with no paper, and it was effective, with no money spent by the city to produce the revenue.
4. It lowered taxes and the funds were used socially whereas formerly the money went to illegal bookmaking.
5. Most important, several manufacturers are competent to produce the required equipment. The key element then is the people who are supplying the product. We need to look at the management, not the machines. Through our supplier, IGT, we brought in local management, obtained public acceptance, and produced the bottom line.

Some suggestions, including allowing municipalities some form of option, as it's more difficult to obtain acceptance of a lottery at the state level and opposition will be less. A large bureaucracy is also not necessary with local option. With this, competition can be introduced at local levels as opposed to vendor monopoly at the state level.

In terms of continuation of the lottery, if the Legislature is friendly in January, we will ask to have the law changed. If we are not successful, we will challenge the hasty legislation in the courts under the present law."

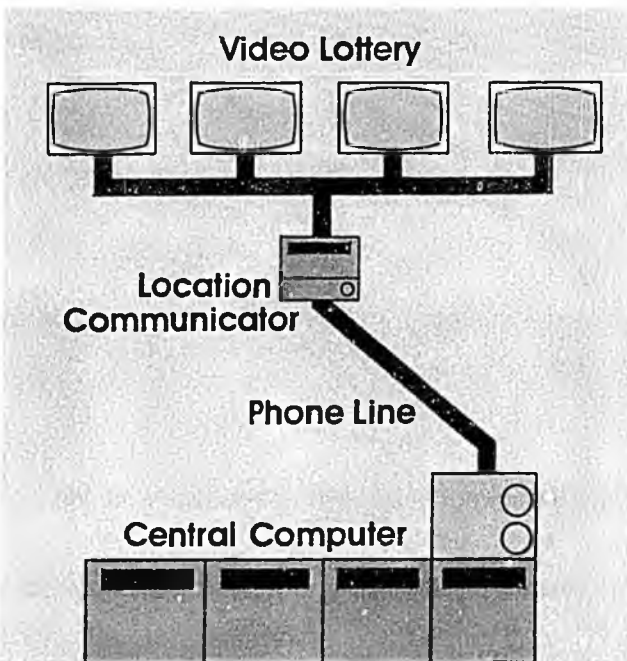
Video Lottery

IGT, known for its extensive video knowledge and experience, has produced more than 75,000 machines currently in use in licensed casinos worldwide. Allocating a substantial budget to research and development, it produces the only line of video machines recognized as the gaming industry standard. And the security and reliability of IGT's products have made it possible to award the first multi-million-dollar prizes in history.

IGT's latest development is the Video Lottery machine, providing one of the most advanced and exciting forms of adult entertainment around. Self-instructive and user-friendly, it offers optimum player appeal with lively animation, vivid colors, and digitally synthesized music and sound effects.

Prizes are tallied by the machine and printed on an encoded winning ticket, using security-controlled stock paper. Low-tier awards are redeemed by the sales agent after validation by the central computer. High-tier prizes are paid by check and mailed from a central location.

Whether free-standing, on-line or dial-up, IGT's lottery machine features customized software and game design services to meet every need.



Machines are monitored via dedicated or dial-up phone lines, guaranteeing accurate accounting and security.

Video Lottery Success Story

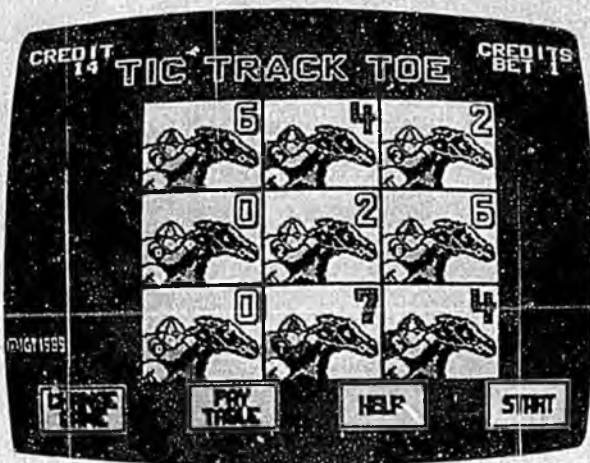
For a look at a legal video lottery system with tremendous success, take a look at Bellevue, Nebraska. The city, with a population of 32,000, was burdened with a budget deficit of \$500,000 in 1984 when it undertook a year-long experiment with an IGT video lottery system. In the words of then-Bellevue City Manager Jeff Renner, "The experiment was a resounding success." In fact, the Bellevue video lottery generated revenue for a city equaling all property taxes collected.

"I think the success of our lottery can be traced directly to the IGT Video Lottery System," Renner said. "Public acceptance of the video lottery was extremely high, particularly among the middle class. Through our supplier, IGT, we brought in local management, obtained public acceptance, and produced the bottom line."

Features

- One to Five Games Per Terminal
- Light Pen Interface
- Self-Test Diagnostic Mode
- Printed Cash-Out Ticket
- Display Accounting Meters Mode
- Real-Time Clock
- Complies with FCC regulations for a Class A Computing Device
- Audible and Visible Attract Modes
- Game Speed Selection
- Background Color Selection
- Autoplay (Pressing "Start" replays the same number of credits and automatically starts the game.)
- Lift-up Top Panel for Easy Maintenance Access
- Modular Mechanical Design for Minimum Downtime
- Random Shuffle Before Every Game
- Non-Volatile Memory (retains data during power interruptions or outages for up to three months.)
- Fiber-Optic Communication Interface (immune to electro-static hazards therefore not subject to approval by NFPA.)
- Single Board Processor
- Individual Game Play Statistics Monitored by the Accounting Communication System
- Custom Games, Graphics, Digitally Synthesized Music and Sound Effects

The following are examples of some games currently available. Additional games can be created or modified to fit specified requests or requirements. Contact your IGT representative for the latest information on video lottery games and systems.



TIC-TRACK-TOE

Player's objective is to score three of any digit in a row, column or diagonal.



SHOWDOWN

Cards are dealt out of a 52-card deck (no joker) with no holds or draws.



WIN-PLACE-SHOW

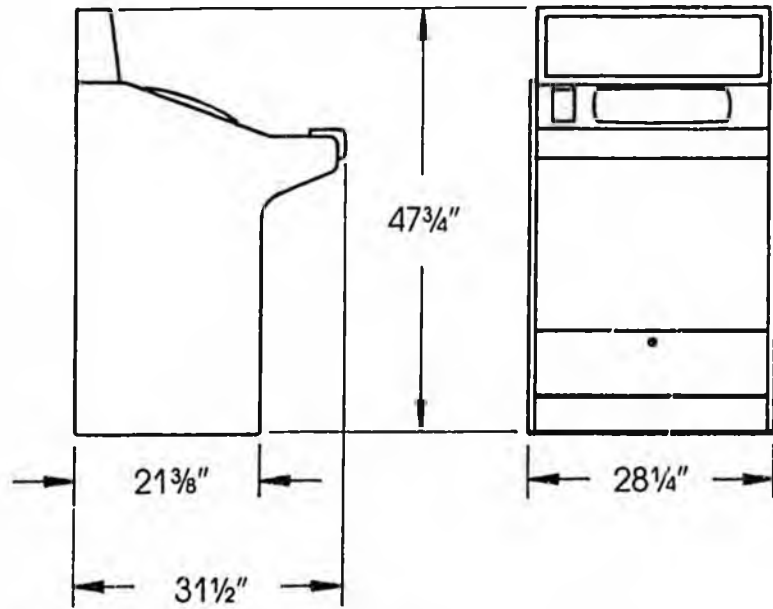
Player selects three digits, while machine selects three digits. Wins are based on matches between the two.



MONEY MATCH

The player selects four hidden dollar amounts. Any three matching amounts returns the credits played, while four wins a multiple of credits played.

IGT VIDEO LOTTERY



SPECIFICATIONS

Height 47 3/4"
 Maximum Width 28 1/4"
 Maximum Depth 31 1/2"
 Shipping Weight 375 lbs.

Power Requirements:

100-128VAC - 50/60HZ

1.5A Idle, 3.5A Max With Printer Running



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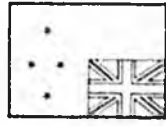
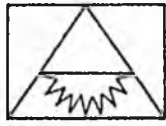
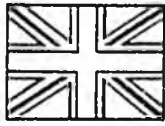
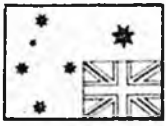
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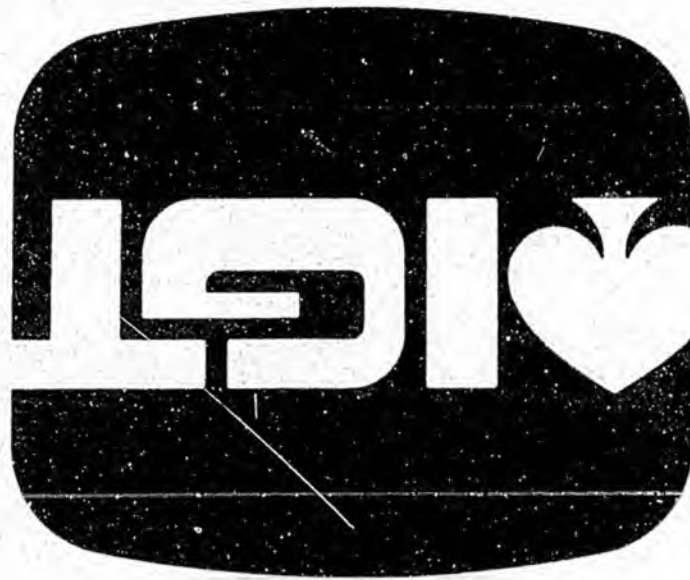
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1989 Annual Report



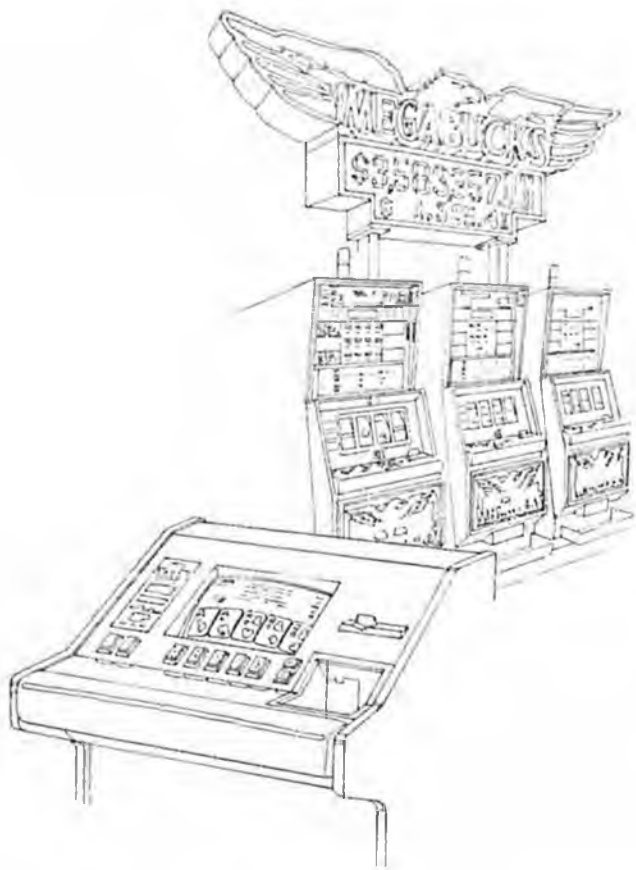


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About the Company

International Game Technology (IGAM) is the parent company of several subsidiary companies which are involved in major aspects of the gaming business, and markets a broad range of gaming machines in all jurisdictions where such machines are permitted. IGAM wholly owns IGT, IGT-Australia Pty. Ltd. and Casino Management Services and holds a 45% interest in Electronic Data Technologies.

IGT, with manufacturing facilities in Nevada, is the world leader in the design and manufacture of microprocessor-based gaming products and systems. IGT utilizes an internal sales staff and distributors to market its product in Nevada, Atlantic City, New Jersey, and other markets throughout the world. IGT has developed multi-location progressive slot machine systems and operates two such systems under "Megabucks" and "Quartermania" in Nevada. A similar system has been approved for implementation in Atlantic City, New Jersey; such systems are also operating in Macau and, on a trial basis, in New South Wales, Australia.

IGT-Australia, with manufacturing facilities in Sydney, designs, manufactures and markets microprocessor-based gaming products in the Australian market, the second largest market in the world, as well as other gaming jurisdictions in the Southern Hemisphere and the Pacific Rim.

Electronic Data Technologies, a 45% owned subsidiary, develops and manufactures information and player tracking systems which monitor the activity of slot machines on a real time basis. EDT also develops and markets Keno and Bingo gaming products and operates a Nevada gaming machine route.

Casino Management Services owns 55% of the Silver Club Hotel & Casino in Sparks, Nevada, 100% of the Treasury Club in Sparks, Nevada, and 50% interest in Kings Casino on the island of Antigua in the Caribbean. CMS will complete the purchase of the El Capitan Hotel & Casino in Hawthorne, Nevada on January 1, 1990.

Letter to Stockholders

We are pleased to report that your company had a very good year in fiscal 1989.

The record number of units installed in 1989, increased play on our Systems Division products and revenues generated by the newly created CMS subsidiary resulted in total revenues of \$151 million in fiscal 1989, a 53% increase over the prior year. The resulting \$13.5 million of net income increased 61% and earnings per share on a fully diluted basis increased from \$1.35 to \$1.74 or 29%. The per share percentage increase is less than the dollar increase because the number of shares outstanding is significantly greater, primarily as a result of the successful conversion of our debentures to equity on September 19, 1988.

We are focused in the gaming industry, which is experiencing explosive growth throughout the world. Our business segments permit us to maximize revenues in this industry. Our core business is the design, manufacture and sale of reel and video gaming machines and systems to link these machines to provide security, accounting and player information. In addition, we operate gaming routes throughout the State of Nevada, using machines located in various locations to produce revenue on a rental or participation basis. And finally, our CMS subsidiary operates casinos in Nevada and on the Caribbean island of Antigua.

Nevada accounts for approximately 50% of the world market in which we operate. Over the next three years, growth in the Nevada market for our systems and equipment will be accelerated by the need to replace almost 65,000 units of older equipment due to advanced technology and the competitive arena brought on by new and remodeled casino properties. In addition, at this writing, there are 16,400 rooms under construction in southern Nevada. There are an additional 55,000 rooms on the drawing boards. While we do not foresee completion of all of the proposed rooms, we do believe this growth will increase the population of machines in the state by as much as 35,000 machines during the coming three year period.

Australia represents approximately 25% of the world market. There are approximately 55,000

machines in operation there. Of these, 47,000 are located in the private club system in New South Wales and the balance are in seven casinos located throughout the country. We are relative newcomers to this market, having established our Sydney manufacturing plant in 1986. Since that time IGT-Australia has gained a significant share of the market and we are growing. During the coming year we will relocate our facility, doubling our manufacturing space in light of new markets that are opening. Officials in Queensland have announced that they will authorize gaming machines in their state for placement in their club system and in pubs. There are approximately 2,000 sites which will eventually accommodate as many as 20,000 machines. In addition, Queensland authorized two new casinos which will bring the total number to four in that state. New Zealand has also authorized two casinos to be opened, one each on the north and south islands.

Throughout the world, from Deadwood, South Dakota to Leningrad, U.S.S.R., legalized gaming is on the increase, particularly in lotteries, casinos, off-track betting, bingo, video poker and other gaming machines. Our Systems Division has and will continue to play a key role in this growth. "Megabucks" and "Quartermania" are two product lines developed by our engineers. Both are now in operation in the state of Nevada and account for about 1.65% of the total Nevada casino gross win with 1% of the machine population. The Megabucks system operates on IGT machines in Macau where they account for 45% of the play with 25% of the machine population. These systems, and others like them presently under development, reassure governments by providing regulators with security and accounting information, and provide operators with information that enables reduced costs of operation and increased efficiency of marketing efforts.

Electronic Data Technologies (EDT), our 45% owned subsidiary, continues to be the leader in design and manufacture of slot information and player tracking systems. Its equipment is now installed on more than 25,000 machines in Nevada,

Letter to Stockholders (continued)

New Jersey, Italy, Australia and Portugal. With a growing world population of 250,000 machines, EDT has a considerable market remaining. EDT has also developed a Keno writing system, a "Pick Bingo" product and will soon introduce new and exciting Keno products to the market.

At the beginning of the 1989 fiscal year, our CMS subsidiary was in the planning stages. We were operating the Mizpah Hotel and Casino in Tonopah, Nevada. On January 1, 1989 we began operations at the Silver Club Hotel and Casino in Sparks, Nevada and, in a joint venture, we opened the Kings Casino on the island of Antigua in the Caribbean. Subsequently, we opened a small casino in Sparks - the Treasury Club. We will begin operations in the newly purchased El Capitan Hotel and Casino in Hawthorne, Nevada on January 1, 1990 and terminate operations at the Mizpah. Management of this newly organized subsidiary is consolidated under the guidance of a team of highly experienced managers with many years experience in this business. We anticipate a small contribution from CMS to net profits during the coming year.



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

We have reserved \$10.2 million in anticipation of any future losses that may result from investments in or amounts due from Syntech International, Inc. We feel this reserve is prudent in view of the losses suffered by that company. Also, during the year, we sold 1,140,000 shares of EDT common stock on the public market for \$12.8 million and a profit of \$10 million, as shown on the financial statements which accompany this letter.

On behalf of our 1,960 employees, thank you for your continued support. Our efforts will be targeted to increase gross revenues by a 20% annual compound rate and to achieve increased net operating after tax profits from our present 8.8% to 11.0% over the next three years. To accomplish this we must be dedicated to our customers, our fellow workers and you, our stockholders.



John J. Russell
President and Chief Operating Officer

Selected Financial Data

The following information has been derived from the Company's consolidated financial statements:

<i>Amounts in thousands, except per share data</i>	Years Ended			Nine	Year Ended
	1989	1988	1987	Months Ended Sept. 30,	Dec. 31, 1985
Selected Income Statement Data:					
Total revenues	\$ 151,152	\$ 98,694	\$ 83,110	\$41,574	\$56,564
Income (loss) from continuing operations before extraordinary item and cumulative effect of changes in accounting principles	\$ 13,220	\$ 7,698	\$ (613)	\$ (5,126)	\$ 1,475
Income (loss) from discontinued operations	\$ 261	\$ (971)	\$ 134	—	—
Extraordinary item (utilization of tax loss carryforward)	—	—	\$ 218	—	—
Cumulative effect of changes in accounting principles	—	\$ 1,650	—	\$ (1,008)	—
Net income (loss)	\$ 13,481	\$ 8,377	\$ (261)	\$ (6,134)	\$ 1,475
Income (loss) per primary share, from continuing operations before extraordinary item and cumulative effect of changes in accounting principles	\$ 1.73	\$ 1.38	\$ (.10)	\$ (.64)	\$.18
Net income (loss) per primary share	\$ 1.76	\$ 1.50	\$ (.04)	\$ (.76)	\$.18
Average primary common and common equivalent shares outstanding	7,660	5,573	5,842	8,073	8,104
Selected Balance Sheet Data:					
Working capital	\$ 68,245	\$ 48,097	\$ 31,802	\$23,562	\$32,668
Total assets	\$170,492	\$127,799	\$108,631	\$95,002	\$93,848
Convertible Senior Subordinated Debentures	—	—	\$ 30,000	—	—
Capital leases and long-term notes payable	\$ 23,909	\$ 18,024	\$ 21,214	\$ 2,910	\$ 2,300
Stockholders' Equity	\$ 82,028	\$ 67,067	\$ 29,451	\$60,021	\$66,120

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Company's business is primarily comprised of sales of gaming products, operation of casinos and the operation of a gaming route. The timing of large sales can cause revenues to fluctuate from quarter to quarter.

Results Of Operations

Fiscal 1989 Compared to Fiscal 1988

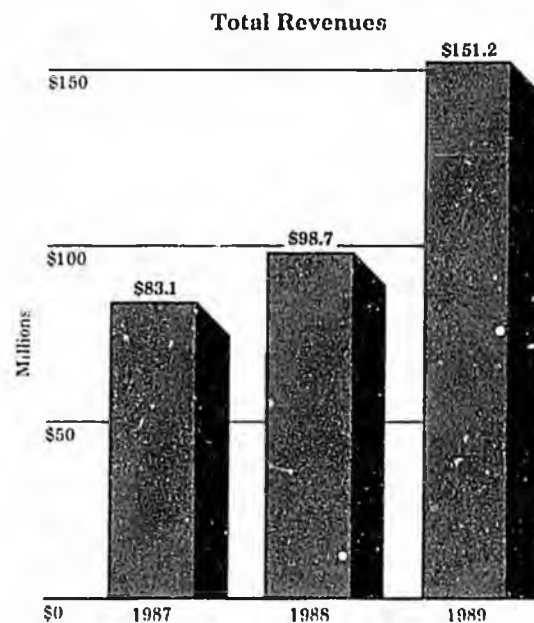
Net income increased to \$13.5 million, or \$1.76 per primary share compared to the previous year's net income of \$8.4 million or \$1.50 per primary share.

Net income for fiscal 1989 included \$261,000 or \$0.03 per share of income from discontinued operations. Net income in fiscal 1988 included \$1.7 million or \$0.29 per share of income attributable to the cumulative effect of adoption of an accounting standard to recognize a lower federal income tax rate on future payments of the Company's deferred federal income taxes and a loss from discontinued operations of \$971,000 or \$0.17 per share. During the fourth quarter of 1989 income from continuing operations included a \$10.0 million gain on the sale of 1,140,000 shares of EDT stock, reducing the Company's investment from approximately 77% of the outstanding common stock of EDT to approximately 45%. The Company also recorded a \$10.2 million expense to fully reserve its notes receivable from Syntech and reduce its investment in the common stock of Syntech to \$323,000. The Company felt these reserves were necessitated by the operating losses Syntech recorded during the last fiscal year and a significant reduction in the market value of Syntech common stock. Excluding the above non-recurring items, net income for fiscal 1989 increased 75% to \$13.4 million.

The increase in net income from operations is the result of a 37% increase in product sales, an improved gross margin on product sales, and the continued growth of the Company's progressive slot systems division in Nevada.

The 53% or \$52.5 million increase in revenues to \$151.2 million in fiscal 1989 included a 37% in-

crease in product sales and a 107% increase in gaming and casino operations revenues. Increased product sales reflected a 40% increase in gaming machine shipments from Nevada and increased sales of player tracking/slot monitoring systems by the Company's subsidiary, EDT. The Company anticipates continued growth in product sales from both the replacement of older gaming machines and the continued growth, particularly in southern Nevada, in new and expanding casinos. Product sales by the Company's wholly-owned subsidiary IGT-Australia increased only slightly from its record 1988 year. It is anticipated that future growth in gaming equipment in the Australian market as a result of the expansion of legalized gaming activities in Australia will be strong. The significant increase in gaming and casino operations revenues resulted primarily from the Company's addition of three casino properties during fiscal 1989 through its CMS subsidiary. These three properties included the opening in December 1988 of the Kings Casino on the island of Antigua in the Caribbean, the January 1989 acquisition of the Silver Club Hotel and Casino in Sparks, Nevada, and the March 1989 opening of the Treasury Club Casino also in Sparks, Nevada.



Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

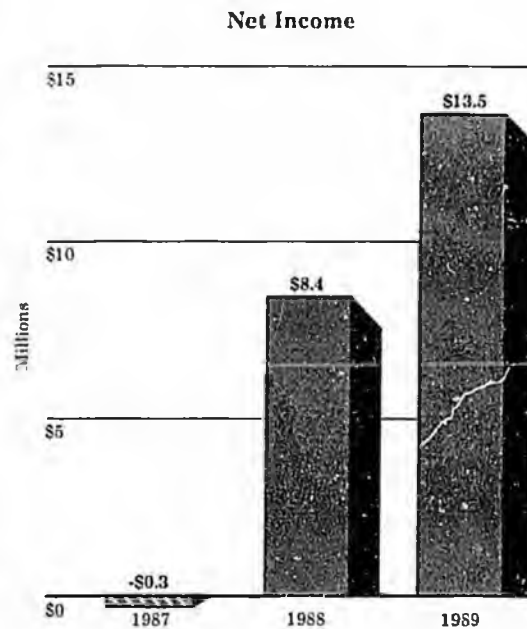
Also contributing to this increase in game operations revenues was the continued growth of Megabucks, the first linked progressive system and the 1989 introduction of Quartermania, which similarly links gaming machines throughout Nevada, generating a single large jackpot prize.

The gross profit margin on product sales which had increased by 4% in fiscal 1988 to 43.1%, increased an additional 1.8% in fiscal 1989 to 44.9% reflecting continued improvement in the efficiencies in the design, manufacture and installation of gaming machines. The gaming and casino operations expense increase of \$17.3 million to \$27.0 million was primarily caused by the addition of the three CMS casino properties described above, costs incurred by EDT in entering the slot machine route business and expenses of the Company's new Quartermania systems product.

The addition of the three CMS casino properties and EDT's new route business also contributed to the 49% or \$9.6 million increase in selling, general and administrative expense and the 20% or \$1.1 million increase in depreciation and amortization expense. Increased administrative payroll costs including benefit plan costs and increased sales staff in Australia also contributed to the selling general and administrative expense increase. EDT realized increased amortization costs relating to previously capitalized product enhancement costs of its new slot management and keno system versions.

Research and development costs increased 29% or \$1.5 million to support increased product sales, a greater diversity of customer requirements and the development of other linked progressive systems for applications in Nevada and Australia. The provision for bad debt expense increased 31% or \$738,000 to \$3.1 million as a result of additional reserves for an Argentina customer, in light of current economic conditions in that country.

Net interest and other income increased 19% or \$1,065,000 primarily as a result of increased income recognized on the Company's investments in



annuities utilized to pay off system jackpot winners and interest income received on notes receivable from Syntech related to a sale of 3,500,000 shares of Syntech common stock to that corporation in April 1988.

Fiscal 1988 Compared to Fiscal 1987

Net income increased to \$8.4 million or \$1.50 per primary share compared to a loss in the previous year of \$261,000 or \$0.04 per primary share. Income from continuing operations (which excludes discontinued operations, an extraordinary item and the cumulative effect of a change in an accounting principle) was \$7.7 million or \$1.38 per primary share in fiscal 1988 compared to a loss of \$613,000 or \$0.10 per primary share in fiscal 1987. This earnings improvement resulted primarily from a 19% increase in total revenues to \$98.7 million, an improved gross margin on product sales, and a change effective April 27, 1988 from the equity method to the cost method of accounting for the Company's investment in Syntech.

The 19% revenue increase resulted from significant increases in product sales and game operations. Increased sales were achieved by IGT-

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Australia as the Company's products gained increased Australian acceptance. EDT also recognized revenue growth from the sale of player tracking/slot monitoring systems and automated Keno systems. Improved game operations revenues resulted from an increase in the average number of machines operated during the year. Although the average daily number of machines was greater in fiscal 1988 than fiscal 1987, the number fluctuates due to sales and other causes and the number of machines in place on the last day of fiscal 1988 happened to be less than that on the last day of fiscal 1987. Gross profit margin on product sales increased by 4% from fiscal 1987 to fiscal 1988 as a result of the Company's ability to increase manufacturing efficiencies while maintaining product price levels.

Game operations expense increased \$2.1 million or 28% to \$9.7 million in fiscal 1988, primarily because of costs associated with expansion of route operations. Additionally, the Company incurred costs in seeking regulatory approvals. Selling, general and administrative expense increased \$4.7 million or 32% in fiscal 1988 compared to fiscal 1987. This reflected increases in the Company's use of outside consulting services, advertising and promotional costs, and staffing requirements. Depreciation and amortization expense declined 17% or \$1.2 million in fiscal 1988 as a result of management's decision in the prior year to shorten the depreciable lives of the game operations equipment and reduced amortization following expiration of certain gaming rights. During fiscal 1988, research and development expense increased \$669,000 or 14%, primarily because of higher development costs incurred by IGT-Australia and EDT. The provision for bad debts increased \$425,000 or 22% primarily from increased product sales.

Interest and other income increased \$1.3 million primarily from the notes issued by Syntech in April 1988. In fiscal 1988 the Company recognized a loss

of \$204,000 in accounting under the equity method for its Syntech investment compared to a loss of \$3.6 million recorded in fiscal 1987. The reduced loss is the result of more profitable operations of Syntech and the change to the cost method of recording this investment upon the sale of 3,500,000 shares of Syntech common stock in April 1988. Interest expense increased by \$1.1 million due to the Company's \$30.0 million Convertible Senior Subordinated Debentures issued in May 1987. All of the outstanding Debentures were converted into common stock in September 1988.

In October 1988 EDT made the decision to divest itself of its investment in APT Computer Consultants Pty. Ltd. ("APT"), a 51% owned subsidiary. APT is a custom computer software development company which was responsible for marketing and technical support of EDT's products in Australia. IGT-Australia now provides marketing and technical support of EDT products in Australia. This discontinued operation resulted in a loss to the Company of \$971,000 or \$.17 per primary share in fiscal 1988. In fiscal 1987, the Company recorded \$134,000 net income or \$.02 per primary share from this discontinued operation.

During the first quarter of fiscal 1988, the Company adopted a new accounting standard under a pronouncement issued by the Financial Accounting Standards Board that required the Company to convert from the deferred method to the liability method of accounting for income taxes. The liability method requires that the Company's balance sheet reflect taxes payable in the future based on the current tax rates. This change, in conjunction with the reduction in corporate tax rates under the Tax Reform Act of 1986, resulted in a reduction of deferred tax liabilities and a corresponding favorable adjustment to income of approximately \$1.7 million which is presented as the cumulative effect of a change in accounting principle.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Financial Condition

During fiscal 1989, working capital increased \$20.1 million to \$68.2 million at September 30, 1989. This increase resulted primarily from a \$12.4 million increase in trade accounts receivable, and a \$11.8 million increase in cash and short term investments. The cash and short term investment increase resulted from the Company's sale of 1,140,000 shares of the common stock of EDT, the sale of certain contracts receivable, and the addition of the Silver Club Hotel and Casino to the Company's consolidated financial statements. Inventories increased \$4.4 million as a result of increased "in process" production and finished goods inventories. Offsetting the above working capital increases was a \$5.5 million increase in accrued liabilities as a result of the addition of CMS gaming properties and an increase in employee related payroll costs.

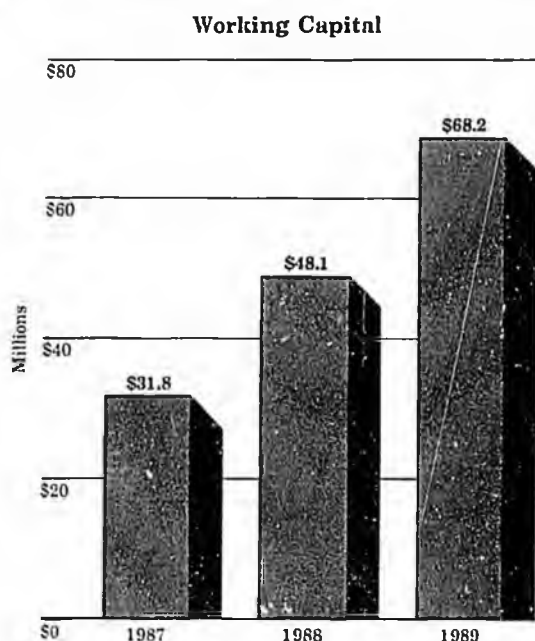
During fiscal 1989, the Company increased its line of credit from \$5.0 million to \$15.0 million under which no amounts were outstanding at September 30, 1989. The new line of credit has an expiration date of January 31, 1990. EDT has a \$6.0 million

line of credit on which \$4.1 million was drawn at September 30, 1989. \$4.0 million on this EDT line of credit expires on June 30, 1990 and the remaining \$2.0 million expires on June 2, 1992. IGT-Australia has a \$500,000 (Australian) bank line of credit with a May 1990 expiration date, of which \$500,000 (Australian) was available at September 30, 1989. CMS, through its 55% owned subsidiary, Silver Club, had a \$500,000 bank line of credit, with an expiration date of December 31, 1989, under which \$200,000 was drawn down at September 30, 1989.

On September 13, 1989, the Company sold 1,140,000 shares of its common stock in EDT for \$12.8 million in cash, reducing its investment from approximately 77% to 45% or 1,660,000 shares. The Company recorded a gain of \$10.0 million on this sale. The 1,660,000 shares the Company currently holds with a book value of \$2.4 million had a market value of \$16.0 million at December 1, 1989. The Company currently has no plans to sell additional shares of EDT common stock.

During the fourth quarter of 1989 the Company reserved \$8.6 million or 100% of its notes and related interest receivable from Syntech and wrote down its investment in the 575,000 shares of common stock of Syntech by \$1.6 million to \$323,000 or \$0.56 per share. The Company felt these actions were appropriate due to the operating losses Syntech recorded during the last fiscal year and a significant reduction in the market value of Syntech common stock.

Under separate agreements with both First Interstate Bank of Nevada and Valley Bank of Nevada which expire on May 31, 1990 and September 15, 1990, respectively, the Company is able to sell certain of its notes and contracts receivable, resulting from gaming equipment sales, to either of these banks up to a combined limit under both agreements of \$30.0 million, subject to the bank's credit approval of the creditor and terms of the equipment sales contracts. During the last six months



Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

of fiscal 1989 the Company sold \$4.9 million of receivables under these agreements on a non-recourse basis. The Company anticipates utilizing these agreements as a source of liquidity. The Company has financed and anticipates it will continue to finance a percentage of its equipment sales, but believes that through these agreements it can better utilize its assets to enable it to expand its business.

The Company, through its wholly-owned subsidiary, Casino Management Services International, owns and operates casino properties. In fiscal 1988, the Company commenced operations at the Mizpah Hotel in Tonopah, Nevada under lease agreements which expire in January 1990. The Company does not intend to renew these leases and will discontinue operations at the Mizpah on December 31, 1989. During fiscal 1989, the Company began operations of three additional casino properties. On December 27, 1988, the Company, as a 50% owner, completed construction and opened the approximate 10,000 square foot Kings Casino on the island of Antigua in the Caribbean. The Company has invested approximately \$2.8 million in this facility to date. On January 1, 1989, the Company, as a 55% owner, completed the purchase and began operation of the Silver Club Hotel and Casino ("Silver Club") which includes 206 hotel rooms and approximately 18,500 square feet of casino gaming space in Sparks, Nevada. The \$11.9 million purchase price of the Silver Club, which included operating cash and inventories, was paid with \$1.2 million cash and a note secured by the purchased assets for the balance, payable over 10 years. On March 6, 1989, the Company opened the Treasury Club Casino, with approximately 2,900 square feet of gaming space in Sparks, Nevada, under a lease agreement with an option to purchase.

On January 1, 1990, the Company anticipates completing the purchase and will assume operations of the El Capitan, an approximate 10,000 square foot casino and hotel operation in Hawthorne, Nevada. The purchase price of \$10.0 million, which includes

operating cash and inventories, will be financed by notes guaranteed by the Company.

On October 3, 1989, the Board of Directors authorized the repurchase of up to ten percent of the Company's then outstanding shares. Pursuant to such Board action a total of 475,563 shares have been repurchased as of December 20, 1989 for an aggregate purchase price of \$13,589,000. Of these shares, 231,558 shares were repurchased from current employees of the Company.

Impact Of Inflation

Inflation has not had a significant effect on the Company's operations during the three fiscal years ended September 30, 1989.

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheets of International Game Technology and subsidiaries as of September 30, 1989 and 1988 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the years then ended. These financial statements and the supplemental schedules discussed below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at September 30, 1989 and 1988 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated supplemental schedules as of September 30, 1989 and 1988 and for the years then ended listed in Item 14(a)(2) are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such consolidated supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte Haskins & Sells

Deloitte Haskins & Sells

Reno, Nevada

November 27, 1989

Report of Independent Public Accountants

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

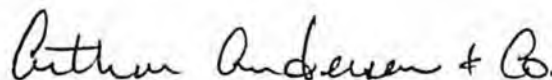
We have audited the accompanying consolidated statements of operations, cash flows and changes in stockholder's equity of International Game Technology (a Nevada corporation) and subsidiaries for the fiscal year ended September 30, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of International Game Technology for the fiscal year ended September 30, 1987 in conformity with generally accepted accounting principles.

Our audit of the financial statements was made for the purpose of forming an opinion on those statements taken as a whole. Supplemental schedules IV, VIII, IX and X are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

San Francisco, California,
December 21, 1987


Arthur Anderson & Co.

Consolidated Statements of Operations

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Revenues:			
Product sales	\$104,356	\$ 76,092	\$ 66,672
Gaming and casino operations	46,796	22,602	16,438
Total revenues (including related party transactions of \$2,898, \$5,613 and \$7,167)	151,152	98,694	83,110
Costs and Expenses:			
Cost of product sales	57,476	43,330	40,884
Gaming and casino operations	26,971	9,688	7,568
Selling, general and administrative	29,137	19,587	14,887
Depreciation and amortization	6,626	5,527	6,695
Research and development	6,869	5,330	4,661
Provision for bad debts	3,133	2,395	1,970
Total costs and expenses	130,212	85,857	76,665
Income from Operations	20,940	12,837	6,445
Other Income (Expense):			
Interest and other income, net	6,681	5,616	4,280
Interest expense	(5,757)	(5,881)	(4,760)
Minority interest in income of consolidated subsidiaries	(451)	(101)	—
Equity in earnings of Syntech	—	(204)	(3,584)
Gain on sale of FDT stock	10,005	—	—
Loss on investment in and receivables from Syntech	(10,189)	—	—
Other income (expense), net	289	(570)	(4,064)
Income From Continuing Operations Before Income Taxes, Extraordinary Item and Cumulative Effect of Change in Accounting Principle	21,229	12,267	2,381
Provision for Income Taxes	8,009	4,569	2,994
Income (Loss) From Continuing Operations Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	13,220	7,698	(613)
Income (Loss) From Discontinued Operations	261	(971)	134
Extraordinary Item - Utilization Of Tax Loss Carryforward	—	—	218
Cumulative Effect of Change in Accounting Principle - Deferred Income Taxes	—	1,650	—
Net Income (Loss)	\$ 13,481	\$ 8,377	\$ (261)

(continued)

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Operations (continued)

	Years Ended September 30,		
	1989	1988	1987
Per Common and Common Equivalent Share:			
Primary:			
Income (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$1.73	\$1.38	\$(.10)
Income (loss) from discontinued operations03	(.17)	.02
Extraordinary item – utilization of tax loss carryforward	—	—	.04
Cumulative effect of change in accounting principle	—	.29	—
Net Income (Loss)	\$1.76	\$1.50	\$(.04)
Weighted Average Shares Outstanding	7,659,906	5,573,186	5,841,917
Fully Diluted:			
Income (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle	\$1.71	\$1.26	\$(.10)
Income (loss) from discontinued operations03	(.13)	.02
Extraordinary item – utilization of tax loss carryforward	—	—	.04
Cumulative effect of change in accounting principle	—	.22	—
Net Income (Loss)	\$1.74	\$1.35	\$(.04)
Weighted Average Shares Outstanding	7,736,504	7,667,199	5,841,917

See Accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheets

<i>Dollars in thousands</i>	Assets	
	September 30,	
	1989	1988
Current Assets:		
Cash and cash equivalents	\$ 15,940	\$ 4,178
Accounts receivable (including \$176 in 1988 due from related parties), net of allowances for doubtful accounts of \$1,237 and \$810	30,483	18,089
Current maturities of long-term notes and contracts receivable (including \$2,210 and \$1,690 due from related parties), net of allowances	20,034	22,306
Inventories:		
Raw materials	13,643	17,547
Work-in-process	9,632	4,611
Finished goods	12,160	9,279
Other	413	—
Total inventories	35,848	31,437
Prepaid expenses and other	5,566	2,835
Total current assets	107,871	78,845
Long-term Notes and Contracts Receivable (including \$226 and \$889 due from related parties), net of allowances and current maturities	12,368	17,453
Property, Plant and Equipment, at cost:		
Land	4,118	—
Buildings	10,733	5,011
Gaming and casino operations equipment	19,096	12,159
Manufacturing machinery and equipment	14,778	11,611
Leasehold improvements	4,308	2,498
	53,033	31,279
Less accumulated depreciation and amortization	(18,933)	(16,574)
Property, plant and equipment, net	34,100	14,705
Investment in Syntech	323	1,958
Long-Term Notes Receivable from Syntech, net of allowances	—	8,214
Systems Annuity Assets	11,593	3,650
Other Assets	4,237	2,974
Total Assets	\$170,492	\$127,799

See Accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheets (continued)

<i>Dollars in thousands</i>	Liabilities and Stockholders' Equity	
	September 30,	
	1989	1988
Current Liabilities:		
Current maturities of long-term notes payable (including \$5,350 and \$4,900 payable to related parties) and capital lease obligations	\$ 10,938	\$ 7,862
Accounts payable	8,026	9,306
Accrued vacation liability	1,840	1,623
Accrued liabilities	13,394	7,889
Accrued and deferred income taxes	5,428	4,068
Total current liabilities	39,626	30,748
Long-Term Notes Payable and Capital Lease Obligations (including \$7,844 and \$13,194 notes payable to related parties), net of current maturities	23,909	18,024
Long-Term Liabilities to Systems Winners	15,793	6,320
Deferred Income Taxes	2,871	2,204
Other Liabilities	86	132
Minority Interest in Subsidiaries	6,179	3,304
Total liabilities	88,464	60,732
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, \$.01 par value; 20,000,000 shares authorized; 7,530,198 and 7,293,590 shares issued	75	73
Additional paid-in capital	48,744	45,830
Retained earnings	36,865	23,287
Treasury stock; 188,783 and 110,057 shares, at cost	(3,656)	(2,123)
Total stockholders' equity	82,028	67,067
Total liabilities and stockholders' equity	\$170,492	\$127,799

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Cash Flows From Operating Activities:			
Net income (loss)	\$13,481	\$ 8,377	\$ (261)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,626	5,527	6,695
Provisions for losses on accounts/notes receivable	3,133	2,395	1,970
Minority interest in income of consolidated subsidiaries	451	101	—
Equity in earnings of Syntech	—	204	3,584
Loss (gain) on sale of assets	140	(267)	84
Loss on investment in and receivables from Syntech	10,189	—	—
Gain on sale of EDT stock	(10,005)	—	—
(Increase) decrease in assets:			
Receivables (excluding Syntech receivable of \$8,802 in 1988)	(8,170)	(7,285)	(13,181)
Inventories	(4,411)	(11,650)	1,050
Income tax receivable	1	292	3,296
Prepaid and other	(2,333)	(893)	(425)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	6,232	5,740	2,270
Accrued and deferred income taxes payable, net of tax benefit of stock option and purchase plans	2,618	(1,143)	57
Total adjustments	4,471	(6,979)	5,400
Net Cash Provided by Operating Activities (Forward)	17,952	1,398	5,139

(continued)

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows (continued)

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Net cash provided by operating activities	\$17,952	\$1,398	\$ 5,139
Cash Flows From Investing Activities:			
Investment in plant and equipment	(16,566)	(8,817)	(8,495)
Proceeds from sale of plant and equipment	3,658	2,403	3,940
Proceeds from sale of EDT stock	11,697	—	—
Proceeds from sale of (paid for) Syntech common stock	—	3,500	(6,899)
Proceeds from collection of loan to Syntech	—	—	2,000
(Increase) decrease in other assets	(1,256)	1,417	(3,578)
Proceeds from systems annuity assets	2,428	1,424	499
Investment in systems annuity assets	(11,358)	(4,667)	(1,313)
Net cash used in investing activities	(11,397)	(4,740)	(13,846)
Cash Flows From Financing Activities:			
Principal payments on debt	(7,934)	(5,296)	(24,221)
Payment on systems annuity liabilities	(2,428)	(1,424)	(499)
Increase in minority interest from subsidiary stock options exercised	732	3,126	105
Collections from systems to fund annuity liability	13,187	5,733	2,511
Proceeds from stock options exercised	555	665	2,451
Proceeds from employee stock purchases	237	71	—
Proceeds of long-term debt	807	2,926	7
Proceeds from issuance of (paid to retire) Debentures	—	(1,907)	30,000
Foreign currency exchange gain (loss)	97	239	(66)
Other	(46)	40	64
Net cash provided by financing activities	5,207	4,173	10,352
Net Increase in Cash and Cash Equivalents	11,762	831	1,645
Cash and Cash Equivalents at Beginning of Year	4,178	3,347	1,702
Cash and Cash Equivalents at End of Year	\$15,940	\$4,178	\$ 3,347

See Accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Equity

<i>Amounts in thousands</i>	<u>Common Stock</u>	<u>Additional</u>	<u>Retained</u>	<u>Treasury</u>	<u>Total</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Earnings</u>	<u>Stock</u>	
Balance at						
October 1, 1986	8,085	\$81	\$13,373	\$46,698	\$ (131)	\$60,021
Stock options exercised	221	2	2,449	—	—	2,451
Currency translation adjustments	—	—	—	(66)	—	(66)
Tax benefit of stock options	—	—	218	—	—	218
Purchase and retirement of stock	(3,183)	(32)	(1,180)	(31,700)	—	(32,912)
Net loss	—	—	—	(261)	—	(261)
Balance at						
September 30, 1987	5,123	51	14,860	14,671	(131)	29,451
Debenture conversion	1,881	19	28,074	—	—	28,093
Stock options exercised	275	3	2,569	—	(1,907)	665
Currency translation adjustments	—	—	—	239	—	239
Tax benefit of stock options	—	—	171	—	—	171
Employee stock purchases	15	—	156	—	(85)	71
Net income	—	—	—	8,377	—	8,377
Balance at						
September 30, 1988	7,294	73	45,830	23,287	(2,123)	67,067
Stock options exercised	214	2	2,086	—	(1,533)	555
Currency translation adjustments	—	—	—	97	—	97
Tax benefit of stock option and purchase plans	—	—	591	—	—	591
Employee stock purchases	22	—	237	—	—	237
Net income	—	—	—	13,481	—	13,481
Balance at						
September 30, 1989	7,530	\$75	\$48,744	\$36,865	\$(3,656)	\$82,028

See Accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

International Game Technology (the "Company") was incorporated under the laws of the State of Nevada in December 1980 to acquire IGT and to facilitate the Company's initial public offering in compliance with the gaming laws of Nevada.

IGT, a wholly-owned subsidiary, manufactures and markets gaming equipment and operates a gaming machine route, which includes statewide progressive slot machine systems.

Electronic Data Technologies ("EDT") is a manufacturer of slot monitoring and player tracking systems, electronic keno systems for casinos and effective October 1, 1988 began management of selected locations of IGT's gaming machine route in Nevada (see Note 14). EDT was wholly-owned by the Company until October 8, 1987, when EDT completed a public offering of 700,000 shares of its common stock, representing 20% of shares outstanding following the offering. In September 1989, the Company sold, through a public offering, 1,140,000 shares of EDT common stock, reducing the Company's ownership to approximately 45% (see Note 17). In June 1987, EDT acquired 51% of the outstanding common stock of APT Computer Consultants Pty. Ltd. ("APT"), an Australian custom computer software development company. Effective following the close of fiscal 1988, EDT discontinued its equity interest in APT (see Note 15).

IGT (Australia) Pty. Ltd. ("IGT - Australia"), a wholly-owned subsidiary, was established by the Company in 1986 to manufacture and market gaming devices in the Australian market and other jurisdictions in the Southern Hemisphere and the Pacific Rim.

CMS International ("CMS") a wholly-owned subsidiary, was established in August 1988, to develop, own and manage casino operations for the Company.

Lottery Games International ("LGI"), formerly a wholly-owned subsidiary of IGT established in 1983, was granted certain rights to application of specific lottery technology developed by IGT. In February 1987, the Company exercised its option

to exchange all of the common stock of LGI for 1,830,000 unregistered shares of Syntech International, Inc. ("Syntech").

The Company owned approximately 43% of Syntech's outstanding common stock as of September 30, 1987. This investment was accounted for on the equity method through April 27, 1988. On April 27, 1988, the Company sold 3,500,000 shares of its Syntech common stock to Syntech reducing the Company's ownership to approximately 9.9% and changed to the cost method of accounting for its remaining investment in Syntech.

The consolidated financial statements include the accounts of the Company, IGT, EDT and its subsidiaries (APT through September 30, 1988), LGI (through January 1987), IGT-Australia and CMS. All material intercompany accounts and transactions have been eliminated.

Change in Fiscal Year

Effective with the fiscal year ending September 30, 1989, EDT changed its fiscal year end from December 31 to September 30.

Product Sales

The Company makes sales for cash, on normal credit terms (90 days or less), over longer term installments, and through participation in the net winnings of the machines until the purchase price is paid. Generally, sales are recorded as the products are installed or upon customer acceptance, or if the Company does not provide the installation the sale is recorded upon shipment. If a substantial uncertainty exists concerning the collectability or term of a contract, the installment method is used. Participation sales are recorded when the product is installed unless the customer does not agree in writing to keep the product installed until the purchase price is paid, in which case the installment method is used.

EDT sales of slot management systems generally involve contracts covering periods up to twelve months. Billings on such contracts are made periodically in accordance with contract terms, and revenue is recognized on the percentage of completion method.

Notes to Consolidated Financial Statements (continued)

Gaming and Casino Operations

Gaming and casino operations revenues consist of revenues relating to the operations of the systems division, the lease and rental of gaming machines, a share of the net gaming winnings from the operation of machines on participation, and revenues relating to operation of hotel/casino businesses.

Dollars in thousands	Years Ended September 30,		
	1989	1988	1987
Participation	\$26,142	\$21,183	\$15,211
Hotel/Casino operations	20,223	429	—
Lease/Rental	431	990	1,227
Total	\$46,796	\$22,602	\$16,438

At September 30, 1988 and 1989, the Company had accrued approximately \$7.6 million and \$18.4 million, respectively, for its share of outstanding progressive jackpot liabilities. This liability includes the amount required to provide for annuity payments to Systems jackpot winners. The Company is required to segregate cash and investments relating to Systems liabilities.

Inventories

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

Depreciation and Amortization

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

Gaming and casino operations equipment	2 to 5 years
Manufacturing machinery and equipment	3 to 5 years
Buildings	40 years
Leasehold improvements	Term of Lease
Building under capital lease	Term of Lease

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

Systems Annuity Assets

This represents annuity investments to meet obligations for funding payments to Megabucks and Quartermania winners. Such investments are stated at cost, which approximates market.

Other Assets

This includes deferred product development costs, deposits, gaming rights, patents, goodwill, and notes receivable from employees (see Note 10). Deferred product development costs have been capitalized in accordance with Statement of Financial Accounting Standards No. 86, and are amortized when the related products are available for release to customers. The cost of gaming rights is amortized on a straight-line basis over the terms of the agreements.

Net Income (Loss) Per Share

Net income (loss) per share is computed based on the weighted average number of common and common equivalent shares outstanding, except in loss years when their effects become anti-dilutive. The Debentures were not common stock equivalents, however, they were considered in the calculation of fully-diluted earnings per share except in 1987 when the Debenture effects were anti-dilutive.

Cash and Cash Equivalents

This includes cash required for casino gaming operations and for funding current systems jackpot payments and annuity purchases. Cash in excess of daily requirements is invested in various marketable securities with maturities of three months or less. Such investments are stated at cost, which approximates market, and are deemed to be cash equivalents for purposes of the consolidated statement of cash flows.

Foreign Currency Translation

The financial statements of foreign subsidiaries have been translated into U.S. dollars for consolidated reporting purposes in accordance with FASB Statement No. 52. All asset and liability accounts have been translated using the current exchange rate at the balance sheet date. Income statement amounts have been translated using the average exchange rate for the year. The gains and losses resulting from the translation

Notes to Consolidated Financial Statements (continued)

adjustments have been accumulated as a component of shareholders' equity, being netted against retained earnings due to the immateriality of the amounts. The effect on the consolidated statements of operations of translation gains and losses is insignificant for all years presented.

2. Business Segments

The Company operates principally in two lines of business: the manufacture of gaming products and gaming and casino operations. The table below presents information as to the Company's operations in different industries.

<i>Dollars in thousands</i>	Years Ended September		
	1989	1988	1987
Revenues:			
Manufacture of gaming products	\$104,356	\$ 76,092	\$
Gaming and casino operations:			
Participation and lease/rental	\$ 26,573	\$ 22,173	\$ 16,438
Hotel/Casino operations	20,223	429	—
Total gaming and casino operations	\$ 46,796	\$ 22,602	\$ 16,438
Operating Profit:			
Manufacture of gaming products	\$ 42,189	\$ 29,009	\$ 22,868
Gaming and casino operations	15,971	10,025	3,998
Total	58,160	39,034	26,866
Other Expenses, Including Net Interest	36,931	26,767	24,485
Income Before Income Taxes	\$ 21,229	\$ 12,267	\$ 2,381
	September 30		
	1989	1988	1987
Identifiable Assets:			
Manufacture of gaming products	\$ 98,070	\$ 89,116	\$ 75,107
Gaming and casino operations	52,464	16,987	8,525
Corporate	19,958	21,696	24,999
Total	\$170,492	\$127,799	\$108,631
Capital Expenditures:			
Manufacture of gaming products	\$ 4,045	\$ 1,565	\$ 632
Gaming and casino operations	23,359	5,403	6,744
Corporate	2,174	3,769	2,331
Total	\$ 29,578	\$ 10,737	\$ 9,707
Depreciation and Amortization:			
Manufacture of gaming products	\$ 2,205	\$ 1,856	\$ 1,549
Gaming and casino operations	3,768	2,973	4,708
Corporate	653	698	438
Total	\$ 6,626	\$ 5,527	\$ 6,695

Notes to Consolidated Financial Statements (continued)

The Company has operations based in the United States and Australia. The table below presents information as to the Company's operations by geographic region.

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Revenues:			
United States	\$133,428	\$ 84,058	\$ 77,211
Australia	18,848	16,318	7,813
Eliminations	(1,124)	(1,682)	(1,914)
Consolidated	<u>\$151,152</u>	<u>\$ 98,694</u>	<u>\$ 83,110</u>
Operating Profit:			
United States	\$ 52,475	\$ 33,768	\$ 24,592
Australia	5,791	5,798	2,096
Eliminations	(106)	68	178
Consolidated	<u>58,160</u>	<u>39,034</u>	<u>26,866</u>
Other Expenses, Including Net Interest	<u>36,931</u>	<u>26,767</u>	<u>24,485</u>
Income Before Income Taxes	<u>\$ 21,229</u>	<u>\$ 12,267</u>	<u>\$ 2,381</u>

	September 30,		
	1989	1988	1987
Identifiable Assets:			
United States	\$160,329	\$119,459	\$104,313
Australia	10,163	8,340	4,318
Total	<u>\$170,492</u>	<u>\$127,799</u>	<u>\$108,631</u>

On a consolidated basis the Company does not recognize intersegment revenues or expenses upon the transfer of gaming machines between segments. Operating profit is revenue less cost of sales and operating expenses, including related operating depreciation and amortization, and provisions for bad debts. Other expenses include selling, general and administrative expense and related depreciation and amortization, interest expense, interest income, research and development expense.

During the fiscal year ended September 30, 1987, the largest customer of the Company's products accounted for approximately 15% of such sales. During the fiscal years ended September 30, 1988 and 1989, no single customer accounted for more than 10% of the sales of the Company's products.

The Company had total export sales from the United States of approximately \$4,025,000, \$8,590,000 and \$10,284,000 during the fiscal years ended September 30, 1987, 1988 and 1989 respectively.

3. Notes and Contracts Receivable

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

The Company has provided loans, principally for financial assistance, to several customers. At September 30, 1988 and 1989, the balance of such loans totaled \$1,923,000 and \$1,282,000, respectively, net of the related allowance for doubtful accounts of \$806,000 and \$97,000, respectively.

Notes to Consolidated Financial Statements (continued)

These loans are generally for terms of one to five years with interest at prevailing rates.

The following table represents, at September 30, 1989, the estimated future collections of notes and contracts receivable:

<i>Dollars in thousands</i>	Estimated Receipts
Years Ending September 30,	
1990	\$20,034
1991	7,343
1992	2,633
1993	1,042
1994	276
1995 and after	1,074
	\$32,402

At September 30, 1988 and September 30, 1989, the following deferred income and allowances for doubtful notes and contracts were netted against current and long-term maturities:

<i>Dollars in thousands</i>	September 30,	
	1989	1988
Deferred income:		
Current	\$ 234	\$ 376
Long-term	7	367
	241	743
Allowance for doubtful notes and contracts:		
Current	102	270
Long-term	2,007	2,889
	2,109	3,159
	\$2,350	\$3,902

4. Lines of Credit

As of September 30, 1989, IGT had a \$15.0 million bank line of credit with interest at the lender's prime rate and an expiration date of January 31, 1990. A nominal commitment fee is paid on the unused portion of this line. At September 30, 1989, no advances were drawn under this line.

As of September 30, 1989, EDT had a \$4.0 million revolving bank line of credit with interest at the lender's prime rate and an expiration date of June 1, 1990. A nominal commitment fee is paid on the unused portion of this line of credit. At September 30, 1989, \$3.1 million was drawn down under this line. EDT also has a \$2.0 million long-term credit arrangement with interest at the lender's prime rate. As of September 30, 1989, \$1.1 million was drawn under this agreement, which is repayable in equal monthly installments through December 1991.

IGT-Australia had a \$500,000 (Australian) bank line of credit available as of September 30, 1989. Interest is paid at the lender's reference rate plus 1%. A nominal fee is paid on the unused portion of this line. This line is unsecured, and had a provision for review and renewal annually in May. At September 30, 1989, \$500,000 (Australian) was available under this line.

As of September 30, 1989, CMS, through its 55% owned subsidiary, Silver Club, had an unsecured \$500,000 bank line of credit with interest at the lender's prime rate plus 1/4% and an expiration date of December 31, 1989. As of September 30, 1989, \$200,000 was drawn under this line.

The Company is required to comply with certain covenants contained in the IGT line of credit agreement which, among other things, limits financial commitments the Company may make without written consent of the lender and requires the maintenance of certain financial ratios, minimum working capital and net worth of the Company. The EDT lines of credit contain covenants which require maintenance of certain financial ratios, prohibits payment of dividends or purchasing treasury stock, restricts EDT from incurring additional indebtedness and from lending or advancing amounts to IGT or its other affiliates in excess of \$1 million. EDT has obtained a waiver allowing it to obtain a revolving line of credit of \$4 million from IGT for the purchase of slot machines for its route operations. The EDT lines of credit are secured by its accounts receivables, sales-type lease receivables, inventories, and certain other assets.

Notes to Consolidated Financial Statements (continued)

5. Notes Payable and Capital Lease Obligations

Notes payable and capital lease obligations consist of the following as of:

<i>Dollars in thousands</i>	September 30,	
	1989	1988
Unsecured note with interest at 9% for repurchase of the Company's common stock, maturing in 1992 (see Note 12)	\$ 8,994	\$12,444
Unsecured note with interest at prime plus 1% (11.5% at September 30, 1989) for repurchase of the Company's common stock, maturing in 1992 (see Note 12)	4,200	5,650
Note payable of \$500,000 for EDT's purchase of 51% interest in APT (see Note 1), repaid in 1989	—	237
Unsecured note payable of \$887,500 for repurchase of the Company's common stock, payable April 1, 1990, interest imputed at 12% resulting in a discount of \$51,400	836	—
Note payable with interest at the lender's prime rate plus 1/4% (10.75% at September 30, 1989), secured by real property, with interest only payable until December 1990; then, principal and interest will be paid based on a twenty-year amortization, maturing in 1999 (see Note 16)	10,700	—
Note payable with interest at the lender's prime rate plus 1%, (11.5% at September 30, 1989), secured by real property, interest due monthly until maturity in December 1993	638	—
Note payable, with interest at 10%, secured by real property; monthly payments of \$7,720 commence in 1990, maturing in 1999	800	—
Lines of credit (see Note 4)	4,388	2,450
Capital lease obligations (see Note 8)	4,099	5,039
Other notes payable	192	66
	34,847	25,886
Less current maturities	(10,938)	(7,862)
Long-term notes payable and capital lease obligations, net of current maturities	\$23,909	\$18,024

Future fiscal year principal payments of these notes and capital lease obligations at September 30, 1989 are as follows:

Dollars in thousands

1990	1991	1992	1993	1994	1995 and Later
\$10,938	\$6,924	\$2,872	\$641	\$1,218	\$12,254

Notes to Consolidated Financial Statements (continued)

6. Income Taxes

The effective income tax rates differ from the statutory U. S. federal income tax rates as follows:

<i>Dollars in thousands</i>	Years Ended September 30,					
	1989		1988		1987	
	Amount	Rate	Amount	Rate	Amount	Rate
Taxes at federal statutory rate	\$7,218	34.0%	\$4,171	34.0%	\$1,081	43.0%
Investment tax credit, net	20	0.1	41	0.3	314	12.5
Research and development tax credit	—	—	—	—	(50)	(2.0)
Equity in loss of Syntech	—	—	69	0.6	1,541	61.2
Foreign subsidiaries income	44	0.2	76	0.6	—	—
Other, net	727	3.0	212	1.7	108	4.3
Actual provision (benefit) for income taxes	\$8,009	37.3%	\$4,569	37.2%	\$2,994	119.0%

Total fiscal 1989 pretax income is made up of \$20,993,000 domestic pretax income and \$118,000 foreign pretax income. Total fiscal 1988 pretax income consists of \$11,169,000 domestic pretax income and \$1,098,000 foreign pretax income. Total fiscal 1987 pretax income consists of \$2,005,000 domestic pretax income and \$376,000 foreign pretax income.

Components of the provision for (benefit from) income taxes were as follows:

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Current	\$10,648	\$8,027	\$3,520
Deferred	(2,639)	(3,458)	(526)
	\$ 8,009	\$4,569	\$2,994

Notes to Consolidated Financial Statements (continued)

The deferred tax provisions (benefits) are attributable to the following:

<i>Dollars in thousands</i>	Years Ended September 30,		
	1989	1988	1987
Excess of accelerated depreciation over straight-line depreciation	\$ 396	\$ 479	\$ (518)
The installment method of reporting certain sales for tax purposes	(2,398)	(4,469)	(1,059)
Provisions for inventory and fixed asset valuation adjustments deductible for taxes when realized	(307)	273	926
Provision for warranty expenses, accrued jackpot liabilities and other liabilities deductible for tax purposes when paid	3,511	139	54
Investment tax credit taken for financial statement purposes, not creditable for tax return purposes	—	—	210
Syntech note write-down	(3,439)	—	—
Other, net	(402)	120	(139)
	\$(2,639)	\$(3,458)	\$ (526)

Deferred income taxes are provided on timing differences in the recognition of income and expense for tax and financial reporting purposes. Investment and research and development tax credits are accounted for as reductions in the provision for income taxes in the year they arise.

The Tax Reform Act of 1986 affected the Company primarily through elimination of provisions that permitted deferral of its tax liability into future years. As a consequence, a greater portion of book income is currently taxable, and appears as a current liability rather than as a long-term deferred liability. The new provisions that primarily affect the Company are: elimination of the installment sale method; elimination of the investment tax credit; new restrictions on the research and development tax credit; new uniform capitalization rules affecting inventory costs; and the reduction in the statutory tax rates.

Of benefit to the Company, although largely offset by elimination of deferral provisions, was the reduction in statutory tax rates from 46% to 34%. At September 30, 1987, deferred taxes were stated at 46%. The tax rate reduction, coupled with the Company's election to adopt Financial Accounting Standards Board Statement No. 96, resulted in a

reduction in the Company's deferred tax liability and an increase in net income of \$1,650,000 through treatment of the reduction as the cumulative effect of a change in accounting principle. The Company, by early adoption of FASB 96, revalued its deferred tax liability to estimate the expected future taxes which will become due.

7. Employee Benefit Plans

Employee Profit Sharing Plans

In 1980, IGT adopted a qualified profit sharing retirement plan for its employees. Company contributions to the plan are at the sole discretion of the Company's Board of Directors. Benefits vest over a seven-year period of employment. Under a discretionary program effective January 1, 1986, and reviewable by the Board annually, contributions are based on 5% of annual IGT pretax operating profits above a set minimum. Effective for 1988 and 1989 the minimum pretax operating profits were \$2,000,000 before any allocation to the Plan.

Additionally, a cash sharing plan was adopted by IGT effective January 1, 1986, in which 5% of annual pretax operating profits (in excess of \$2,000,000 for 1988 and 1989) of IGT, are distributed to employees on a semiannual basis.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Notes to Consolidated Financial Statements (continued)

Contributions to the plan are reviewed annually by the Board.

The Company's subsidiaries, EDT and IGT-Australia, have similar retirement and cash sharing plans with IGT-Australia's retirement plan designed as a superannuation program. Total consolidated profit sharing and cash sharing expense was \$901,000, \$1,391,000, and \$2,560,000 for the fiscal years ended September 30, 1987, 1988, and 1989, respectively.

Management Bonus Plans

IGT maintains a discretionary management bonus plan in which key employees participate and a marketing management bonus plan. Effective January 1, 1986, 5% of IGT's annual pretax operating profits (in excess of \$2,000,000 for 1988 and 1989) are distributed under the management bonus plan. Bonuses for marketing management are computed using a formula based on product sales levels and gross profit margins achieved. The Company's other operating subsidiaries maintain similar plans. Under these plans total consolidated expense was \$545,000, \$899,000, and \$1,815,000 for the fiscal years ended September 30, 1987, 1988 and 1989, respectively.

Stock Option Plan

In 1981, IGT adopted a tandem Stock Option Plan consisting of qualified incentive stock options and non-qualified stock options. Options under this plan have been granted at fair market value on the date of grant. Typically options become exercisable in five annual installments although a shorter period may be provided.

Under this plan options to purchase an aggregate of 1,694,000 shares may be granted. At September 30, 1989, options to purchase 283,622 shares were available for grant.

	Number of Shares	Option Price Per Share
Outstanding		
September 30, 1988 ...	421,298	\$ 8.08 - \$23.00
Granted	157,261	\$20.19 - \$26.88
Cancelled	(12,227)	\$ 8.08 - \$20.19
Exercised	(54,548)	\$ 8.08 - \$16.25
Outstanding		
September 30, 1989 ...	511,784	\$ 8.08 - \$26.88
Exercisable at		
September 30, 1989	226,537	\$ 8.08 - \$23.00

Employee Stock Purchase Plan

Effective February 26, 1987, IGT adopted a Qualified Employee Stock Purchase Plan. Under this plan, each eligible employee may be granted an option to purchase a specific number of shares of the Company's common stock. The term of each option is twelve months, and the exercise date is the last day of the option period. Eligible employees include only those employees who have completed twelve months of continuous service with the Company. The plan excludes employees who are officers, 5% or more shareholders, employees receiving more than \$54,480 in annual compensation, employees of IGT-Australia, and effective March 1988 employees of EDT. In March 1988, EDT adopted its own qualified employee stock purchase plan with similar exclusions as described above.

An aggregate of 150,000 shares may be made available under this plan. Employees may participate in this plan only through payroll deductions up to a maximum of 10% of their base pay. The option price is equal to the lesser of 85% of the fair market value of the common stock on the date of grant or on the date of exercise.

Notes to Consolidated Financial Statements (continued)

8. Commitments

The Company leases certain of its facilities and equipment under various agreements for periods through 1997. The schedule below shows the future minimum rental payments required under these operating and capital leases which have initial or remaining non-cancellable lease terms in excess of one year as of September 30, 1989.

The cost and related accumulated depreciation of facilities and buildings under capital leases as of September 30, 1988 was \$5,492,000 and \$1,268,000, respectively, and as of September 30, 1989 was \$5,327,000 and \$1,950,000, respectively.

Certain of the leases provide that the Company pay utilities, maintenance, property taxes and certain other operating expenses applicable to the leased property, including liability and property damage insurance. The lease for the Company's existing manufacturing facility in Reno extends through 1997. The lease provides for periodic rental increases.

EDT has entered into a lease agreement for a 78,000 square foot facility which will serve as its principal office in Las Vegas, Nevada. The lease has an initial term of ten years with initial monthly lease payments of approximately \$66,000, which is included in the operating lease payments presented in the table below.

The total rental expense for the fiscal years ended September 30, 1987, 1988 and 1989 was approximately \$2,178,000, \$2,830,000 and \$4,211,000, respectively.

9. Contingencies

The Company has been named in lawsuits in the normal course of its business. Management does not expect the outcome of these suits to have a material adverse effect on the Company's financial position or results of future operations.

10. Related Party Transactions

Company's Founder (see Note 12)

The Company leases a warehouse facility in Las Vegas from the Company's founder and his wife. The lease, which began in 1979, expires in 1991. Rental expense under this lease was \$502,000, \$534,000, and \$518,000 for the fiscal years ended September 30, 1987, 1988 and 1989, respectively. Management believes the terms of this lease are competitive.

The Company leases an aircraft from the Company's founder at a competitive hourly rate. The Company incurred expenses of \$93,000, \$55,000, and \$77,000 for the fiscal years ended September 30, 1987, 1988 and 1989, respectively, for the use of this aircraft.

Dollars in thousands

Years Ending September 30,	Operating Leases	Capital Leases	Total
1990	\$ 2,431	\$ 1,139	\$ 3,570
1991	2,449	1,098	3,547
1992	1,804	1,075	2,879
1993	1,658	802	2,460
1994	1,537	736	2,273
1995 and after	8,276	2,870	11,146
Total minimum payments	\$18,155	\$ 7,720	\$25,875
Amount representing interest		(3,621)	
Capital lease obligations		4,099	
Less current portion		(625)	
Long-term capital lease obligations		\$ 3,474	

Notes to Consolidated Financial Statements (continued)

The Company recognized revenues of \$512,000 and \$1,361,000 for the fiscal years ended September 30, 1987 and 1988, respectively, from other companies owned by the Company's founder. Terms for sales to these companies were comparable to those for sales made to customers other than related parties. Since late 1982, the companies have been operated by an independent third party who placed orders for the equipment purchased by virtue of its management authority. In November 1987, two of these companies were sold to this third party.

The Company had contracts receivable and related interest receivable from three companies owned by the Company's founder of \$752,000 at September 30, 1987, and \$1,237,000 and \$896,000 from one company owned by the Company's founder at September 30, 1988 and 1989, respectively.

The Company's founder has a personal business of loaning funds to certain individuals, which includes individuals affiliated with Company customers. The total of these loans made to individuals affiliated with Company customers was \$1,272,000, \$3,280,000 and \$2,985,000 for the fiscal years ended September 30, 1987, 1988 and 1989, respectively.

From February 1986 through December 1986, the Company's founder served as President and Chief Executive Officer and was not paid a salary.

In July 1986, the Company's current Chairman purchased 500,000 shares of the Company's common stock from the Company's founder. Additionally, in September 1986, 409,300 shares were sold to various persons, including key employees of the Company by the Ivy Lee Redd Testamentary Trust, of which the Company's founder is trustee, for notes requiring payment of interest yearly with all principal due after three years. At the time the notes became due the Company loaned some of these individuals a total of \$1,609,495 to meet that obligation which was outstanding at September 30, 1989. At November 20, 1989, \$504,190 plus interest was outstanding.

Other Members of the Company's Board of Directors

A member of the Company's Board of Directors is an officer of, and has an equity interest in, a Nevada gaming business from which the Company recognized revenues of \$291,000, \$403,000 and \$532,000 during the fiscal years ended September 30, 1987, 1988 and 1989, respectively. Terms for sales to these companies were comparable to those for sales made to customers other than related parties. The Company had a contract receivable balance from this customer of \$97,000 at September 30, 1987, \$143,000 at September 30, 1988 and \$361,000 at September 30, 1989. He is also a director and officer of a parent to five additional gaming businesses in Nevada, from which the Company recognized revenues of \$6,364,000, \$3,849,000 and \$2,366,000 during the fiscal years ended September 30, 1987, 1988 and 1989, respectively. The Company had a contract receivable balance from these businesses of \$2,672,000 at September 30, 1987, \$1,199,000 at September 30, 1988 and \$1,179,000 at September 30, 1989.

From February 1986 through December 1986, the Chairman of the Board of Directors was not paid a salary.

Loans to Employees

In August 1989, the Company made loans totaling \$524,360 to four employees enabling them to meet obligations to pay the principal balances due on notes related to their September 1986 purchases of the Company's common stock from the Ivy Lee Redd Testamentary Trust. These demand notes bearing interest at 10.5% are secured by the purchased common stock. The balance outstanding for these loans was \$524,360 at September 30, 1989, and \$504,190 at November 20, 1989.

Notes to Consolidated Financial Statements (continued)

Syntech (see Note 11)

In April 1987, the Company borrowed \$6,500,000 from Syntech and used the proceeds from this loan to pay a portion of the amounts due on April 2, 1987 to the Company's founder and a trust controlled by him (see Note 12). The Company repaid Syntech \$500,000 in April 1987. The remaining amount owed to Syntech was represented by a promissory note bearing interest at the prime rate of the First Interstate Bank of Nevada plus 2% which was repaid upon completion of the sale of Debentures in May 1987 (see Note 13). Interest paid on this loan during 1987 totaled \$87,000.

LGI recognized revenues from Syntech for consulting and engineering support services of \$219,000 in the fiscal year ended September 30, 1987.

11. Investment in Syntech

On January 10, 1986, the Company acquired for \$11.6 million (which included \$564,000 of related acquisition costs) 1,571,429 unregistered shares of common stock or approximately 35% of Syntech, and a warrant to purchase 1,000,000 additional shares of Syntech unregistered common stock at \$9.00 per share, which expired January 7, 1989. The Company and Syntech also granted options to each other, subject to certain conditions, to exchange all of the common stock of LGI for 1,830,000 unregistered shares of Syntech common stock. LGI holds certain rights for lottery applications of certain specified Company developed technology. Concurrent with the agreement, LGI licensed this technology to Syntech for such lottery applications and Syntech licensed its transaction processing technology to the Company for certain gaming applications. In addition, the Company agreed to provide certain manufacturing services to Syntech at an agreed upon profit margin.

In October 1986, the Company purchased in a private placement 673,077 restricted units (each unit consisting of one share of unregistered common stock and one warrant to purchase an additional share of unregistered common stock) for \$6.9 million or \$10.25 per unit, financed by a short term bank loan. Concurrent with this purchase, Syntech sold an additional 1,250,000 units to the

public for \$10.25 per unit. After this purchase the Company continued to hold approximately 35% of the outstanding common stock of Syntech.

Effective February 2, 1987, the Company exercised an option to exchange 1,830,000 unregistered shares of Syntech common stock for all outstanding common stock of LGI. This transaction did not increase the carrying value of the Company's investment in Syntech. Upon exercise the Company held approximately 46% of the outstanding common stock of Syntech. The exercise of warrants issued in the public offering of 1,250,000 units subsequently reduced the Company's equity in Syntech to approximately 43% as of September 30, 1987. None of the 673,077 warrants acquired by the Company was exercised, but were redeemed by Syntech in October 1987 at \$.10 per warrant.

On April 27, 1988, the Company sold 3,500,000 shares of unregistered Syntech common stock to Syntech at a price of \$3.80 per share or \$13.3 million consisting of cash in the amount of \$1,900,000, short-term notes of Syntech in the principal amount of \$1,600,000 and long-term notes of Syntech in the principal amount of \$9,800,000. The short-term notes were paid when due in May 1988. The long-term notes bear interest at a fixed rate of 8%, and are payable as to principal in 33 consecutive quarterly installments of \$294,000 each, commencing April 27, 1989, with a final payment of \$98,000 due one month after the final quarterly payment. Interest is payable quarterly in arrears. The Company recorded these notes receivable from Syntech at a discounted amount of approximately \$8.7 million to reflect an effective interest rate of 11%, which management believes is a fair market rate for these notes. The proceeds received on the sale, including the discounted value of the notes, approximated the carrying value of the investment. The long-term promissory notes are secured by the shares of common stock repurchased from the Company. This sale reduced the Company's holdings of Syntech's common stock to 574,506 shares or 9.9% of total shares outstanding. These securities are "restricted" as that term is defined under the Securities Act of 1933.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Notes to Consolidated Financial Statements (continued)

Under the April 27, 1988 agreement, the Company granted Syntech certain rights to purchase up to 400,000 shares of common stock of Syntech still held by the Company. The 400,000 shares are restricted, and must first be offered for sale to Syntech if the Company proposes to dispose of them. Any shares so offered shall be at a per share price equal to (a) 100% of market price if the market price is not greater than \$3.80, or (b) the greater of \$3.80 or 90% of the market price, if the market price is greater than \$3.80. "Market price" is defined as the closing price for the trading day immediately preceding the date of the Notice of Offer. The Company also agreed not to purchase shares of Syntech common stock for a period of ten years, except pursuant to the warrant owned by the Company to purchase 1,000,000 shares at a price of \$9.00 per share, which expired January 9, 1989.

From initial acquisition through April 27, 1988, the Company reported its Syntech investment using the equity method of accounting. Under this method, the Company recognized a pro-rata portion of the earnings or losses of Syntech (whether or not Syntech made any dividend payments to the Company) after deduction of preferred stock dividends and tax benefits recognized by Syntech of net operating loss carryforwards existing at the time of the Company's investment. In addition, the Company amortized the estimated value of Syntech's lottery contracts and the amount by which the Company's investment in Syntech exceeded its identifiable assets. The Company recorded losses of \$3,584,000 and \$204,000 for the fiscal years ended September 30, 1987 and September 30, 1988 respectively, based on its investment in Syntech using the equity method of accounting.

The financial statements now reflect the use of the cost method of accounting for the Company's investment in Syntech following the sale of 3,500,000 shares of Syntech common stock to Syntech on April 27, 1988.

As a result of operating losses recorded by Syntech during the past fiscal year and due to a significant decline in the market value of Syntech common stock, in September 1989, the Company

fully reserved the unpaid balances of the notes receivable from Syntech and related accrued interest, totalling approximately \$8.6 million, and recognized a loss of approximately \$1.6 million on the remaining 574,506 shares of Syntech common stock owned by the Company.

Syntech is a publicly traded company subject to the information requirements of the Securities Exchange Act of 1934. Syntech's common stock is traded in the over-the-counter market. The market price of Syntech common stock is volatile and has traded as low as \$0.25 and as high as \$14.50 per share since January 1, 1985, and from October 26, 1987 to December 8, 1989 it has traded from \$0.25 to \$5.875 per share. At December 8, 1989, the quoted market price of Syntech common stock was \$0.25.

12. Repurchase of Outstanding Company Common Stock (See Note 10)

The Company purchased on December 31, 1986, 2,186,000 shares of common stock from the Company's founder for \$10.50 per share (a total of \$22,764,000) and 1,014,830 shares from the Ivy Lee Redd Testamentary Trust for \$10.00 per share (a total of \$10,148,300). These purchases and subsequent sales of stock eliminated the founder's and the Trust's investment in the Company excluding the option described below.

The purchases were financed by two five-year promissory notes. The first note, in the amount of \$22,764,000, payable to the Company's founder, with interest at the rate of 9%, provided for a payment on April 2, 1987, of 25% of the principal balance with accrued interest and monthly installments thereafter of principal and interest. The second note, in the amount of \$10,148,000, payable to the Company's founder (as a trustee for the Trust), with interest at prime plus 1%, provided for a payment on April 2, 1987, of 25% of the principal balance with accrued interest and semiannual payments thereafter of principal and interest. The payments due April 2, 1987 were funded by a short-term loan from Syntech in the amount of \$6.5 million, \$2.1 million from the Company's bank line

Notes to Consolidated Financial Statements (continued)

of credit, and \$362,000 generated from operations. The outstanding principal and interest balances under the \$6.5 million loan and the bank line of credit were repaid upon completion of the sale of Debentures in May 1987 (see Note 13).

Additionally, the Company entered into a five-year employment agreement with the Company's founder, who was previously President and Chief Executive Officer, agreeing to employ him as Chairman of the Board of Directors through December 1987 and Chairman Emeritus from January 1988 to December 31, 1991. Pursuant to this employment agreement he will receive a salary and reimbursement for expenses totaling \$275,000 per year and has a stock option agreement to purchase up to 275,000 shares of the common stock of the Company, exercisable in five equal annual installments at \$10.50 per share.

13. Debt Offering

In May 1987, the Company completed a \$30,000,000 public offering of 7-3/4% Convertible Senior Subordinated Debentures.

The Debentures were convertible into the Company's common stock at the option of the holder at a conversion price of \$14.75, subject to adjustment under certain circumstances, at any time prior to maturity in 2002, unless previously redeemed. The Debentures were redeemable at the option of the Company at specified prices plus accrued interest, except redemption could not be made prior to 1992 unless the sales price of the Company's common stock met a specified test. The Debentures were redeemable on May 1, 1992, at the option of each holder thereof, in whole or in part, at 114% of the principal amount thereof, together with accrued interest to May 1, 1992. Because of the redemption feature, the Company accrued interest on the Debentures at an effective rate of 10%.

Meeting the above mentioned redemption test, the Company called for redemption of all outstanding Debentures effective September 19, 1988. All Debentures remaining outstanding, totaling \$27,745,000, were timely converted into common stock. No interest was payable in respect to the converted Debentures. All previously accrued in-

terest was credited to additional paid-in capital upon the conversion.

14. Management of Selected Game Operations Locations by EDT

Effective October 1, 1988, the Company entered into a management agreement with its then 79% owned subsidiary, EDT, under which EDT manages the game operations at selected locations of the Company's Nevada slot machine route. EDT receives a management fee equal to 65% of the Company's revenue collected from these slot machine route accounts, approximately \$5,958,000 in 1989. In August 1989 this agreement was amended, extending the expiration to October 1, 1992 and granting EDT an option to purchase the managed operation and gaming devices for \$12.0 million. The option may be exercised between October 1, 1990 and October 1, 1992 unless the management agreement is terminated by IGT prior to October 1, 1992, in which event the option may be exercised within ninety days of such termination.

15. Disposition of APT

During October 1988, the Company made the decision to discontinue its investment in APT, a custom computer software development company that was providing marketing and technical support of EDT's products in Australia. The Company's managerial and financial support of APT operations ended in November, 1988. IGT-Australia now provides for marketing and technical support of EDT's products in Australia.

EDT has entered into a sale agreement whereby EDT sold its 51% interest in APT to the minority shareholder and forgave a note receivable from APT in the amount of \$350,000 in exchange for the forgiveness of a \$250,000 note outstanding to such shareholder and a release for EDT from all guarantees in favor of any person or corporation in respect of any present or future indebtedness of APT. As part of this agreement EDT has loaned APT \$175,000, collateralized by 43,473 shares of EDT's unregistered common stock owned by the minority shareholder.

Notes to Consolidated Financial Statements (continued)

The net losses of APT through September 30, 1988 and the anticipated losses for the month of October 1988 are included in the consolidated statements of operations for the fiscal year ended September 30, 1988, under "Discontinued Operations". During fiscal 1989, the Company recognized a non-recurring gain of \$261,000 representing an adjustment to the estimated loss on the disposition of APT recorded in fiscal 1988.

16. Acquisition of Silver Club Hotel/Casino

Effective January 1, 1989, Silver Club, a 55% owned subsidiary of the Company, purchased from First Interstate Bank of Nevada ("FIB") all of the assets of a 206 room hotel and casino for a total negotiated purchase price of \$11.9 million, which was less than the fair market value of the assets acquired. The purchase price was paid with cash provided from the Company's bank line of credit in the amount of \$1.2 million and a \$10.7 million note, bearing interest at FIB's prime rate plus 1/4% and payable over 10 years. The note is secured by the purchased assets and guaranteed by the Company. The remaining 45% of the Silver Club is owned by three executives of CMS International.

The assets purchased include all of the land, buildings, furniture, fixtures and equipment used to conduct hotel and casino business activities on the same premises prior to completion of the purchase. Silver Club uses the assets acquired to conduct similar business activities. The acquisition was recorded by the purchase method and the consolidated statement of operations includes Silver Club effective January 1, 1989.

The following table reflects the pro forma condensed operating results of the Company for the fiscal years ended September 30, 1988 and 1989, assuming the purchase had occurred October 1, 1987.

<i>Dollars in thousands, except per share amounts</i>	Years Ended September 30,	
	1989	1988
	(unaudited)	
Total revenues	\$155,127	\$116,051
Income from continuing operations before cumulative effect of change in accounting principle	\$ 12,736	\$ 6,909
Net income	\$ 12,997	\$ 7,588
Per primary share income from continuing operations ..	\$ 1.66	\$ 1.24
Per primary share net income	\$ 1.70	\$ 1.36

17. Sale of EDT Common Stock

In September 1989, the Company sold 1,140,000 shares of EDT's common stock in an underwritten public offering at \$11.25 per share, or a total of \$12.8 million, realizing a gain of approximately \$10.0 million. The Company now owns approximately 45% of EDT's outstanding common stock.

18. Supplemental Statement of Cash Flows Information

Certain noncash investing and financing activities are not reflected in the Consolidated Statements of Cash Flows. The Company incurred capital lease obligations to obtain property, plant and equipment in the years ended September 30, 1987, 1988 and 1989, of \$1,212,000, \$1,920,000 and \$874,000, respectively. For the year ended September 30, 1989, the Company recorded additions to long term notes payable totaling \$12,138,000 related to purchases of property, plant and equipment.

Payments of interest for the years ended September 30, 1987, 1988 and 1989, were \$3,505,000, \$6,985,000 and \$5,709,000, respectively. An income tax refund of \$577,000 was received in the year ended September 30, 1987. Payments for income taxes for the years ended September 30, 1988 and 1989, were \$3,770,000 and \$5,981,000, respectively.

Notes to Consolidated Financial Statements (continued)

19. Selected Quarterly Financial Data (Unaudited)

<i>Dollars in thousands, except per share amounts and stock prices</i>	Total Revenues	Income From Operations	Net Income	Primary Earnings Per Share	Stock Price	
					High	Low
1988						
First Quarter	\$20,562	\$1,967	\$2,708	\$.53	\$12.50	\$ 7.13
Second Quarter	22,145	3,363	1,874	.36	13.38	8.63
Third Quarter	26,497	4,095	2,498	.46	17.25	12.63
Fourth Quarter	29,490	3,412	1,297	.21	26.88	17.00
1989						
First Quarter	\$29,310	\$3,523	\$2,702	\$.36	\$26.50	\$18.00
Second Quarter	31,857	2,763	1,837	.24	23.50	20.13
Third Quarter	42,271	6,396	4,052	.53	29.00	22.63
Fourth Quarter	47,714	8,258	4,890	.63	32.00	25.00