

INTERNATIONAL GAME TECHNOLOGY

Form 10-K

November 28, 2007

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**United States Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2007**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from _____ to _____**

**Commission File Number 001-10684
International Game Technology**

Nevada **88-0173041**
(State of Incorporation) (I.R.S. Employer Identification No.)

9295 Prototype Drive, Reno, Nevada 89521

(Address of principal executive offices)

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

Registrant's website: **www.IGT.com**

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value \$.00015625	New York Stock Exchange

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

Indicate by check mark if registrant is a well known seasoned issuer (as defined in Rule 405 of the Securities Act).

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Act of 1934. Yes No

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

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

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2) of the Exchange Act: Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant on March 31, 2007 was approximately \$13.5 billion

The number of shares outstanding of each of the registrant's classes of common stock, as of November 26, 2007:

315.4 million shares of common stock at \$.00015625 par value

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of our Proxy Statement relating to the 2008 annual shareholders meeting are incorporated
by reference in Part III

INTERNATIONAL GAME TECHNOLOGY
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FORWARD LOOKING STATEMENTS

This report contains statements that do not relate to historical or current facts, but are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to future events or trends, our future prospects and proposed new products, services, developments or business strategies, among other things. These statements can generally (although not always) be identified by their use of terms and phrases such as anticipate, believe, could, would, estimate, expect, intend, may, plan, predict, project, pursue, will, continue, and other similar terms and phrases, as well as the use of the future tense.

Examples of forward looking statements in this report include, but are not limited to, the following categories of expectations about:

- ♣ our ability to introduce new products and stimulate replacement demand
- ♣ the timing, features, benefits, and expected success of new product introductions
- ♣ the timing of the introduction of and revenues from server-based systems
- ♣ benefits from research and development efforts
- ♣ results of our collaboration with the Gaming Standards Association
- ♣ our ability to acquire, develop or protect intellectual property
- ♣ our market share, competitive advantage, and leadership position
- ♣ the advantages offered to customers by our products and product features
- ♣ gaming growth, expansion, and new market opportunities
- ♣ our ability to benefit from and effectively integrate and utilize acquired businesses and assets
- ♣ investments in other entities and improved position in related markets
- ♣ factors impacting future gross margins and tax rates
- ♣ increasing growth or contributions from certain non-machine products and services
- ♣ increasing machine sales or placements
- ♣ legislative or regulatory developments and related market opportunities
- ♣ available capital resources to fund future operating requirements, capital expenditures, payment obligations, and share repurchases
- ♣ timing and amount of future share repurchases and dividends
- ♣ expectations regarding losses from off-balance sheet arrangements

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. See Item 1A, Risk Factors, in this report for a discussion of

these and other risks and uncertainties. You should not assume at any point in the future that the forward looking statements in this report are still valid. We do not intend, and undertake no obligation, to update our forward looking statements to reflect future events or circumstances.

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PART I

Item 1. Business

GENERAL

International Game Technology is a global company specializing in the design, manufacture, and marketing of computerized gaming equipment, network systems, licensing and services. We are a preeminent supplier of gaming products to the world, maintaining a wide array of entertainment inspired gaming product lines and targeting gaming markets in all legal jurisdictions worldwide. We are committed to providing quality gaming products at competitive prices, designed to increase the potential for operator profits by serving players better.

International Game Technology was incorporated in Nevada in December 1980 to acquire the gaming licensee and operating entity, IGT, and to facilitate our initial public offering. Principally serving the United States (US) gaming markets when founded, we expanded into jurisdictions outside the US in 1986. In addition to our main US production facilities in Nevada, we manufacture gaming products in the United Kingdom (UK) and through a third party manufacturer in Japan. We currently maintain sales offices in various gaming jurisdictions around the world.

In addition to our 100% ownership of IGT, International Game Technology has the following directly or indirectly wholly-owned or controlled and consolidated operating subsidiaries:

- ♣ Acres Gaming Incorporated

- ♣ Digideal Corporation

- ♣ I.G.T. Argentina S.A.

- ♣ I.G.T. (Australia) Pty. Limited

- ♣ International Game Technology (NZ) Limited

- ♣ IGT Asia, Lda.

- ♣ IGT do Brasil LTDA.

- ♣ IGT Canada Inc.

- ♣ IGT China, Inc.

- ♣ IGT Europe B.V.

- ♣ IGT Iceland Ltd.

- ♣ IGT Hong Kong Limited

- ♣ IGT Japan, K.K.

- ♣ IGT Latvia SIA

- ♣ IGT Maine, Inc.

- ♣ IGT Mexicana de Juegos, S. de R.L. de C.V.

- ♣ IGT UK Holdings Limited (Barcrest)

- ♣ International Game Technology Africa (Pty) Ltd.
- ♣ Mariposa Software, Inc.
- ♣ WagerWorks, Inc.

Unless the context indicates otherwise, references to International Game Technology, IGT, we, our, or the Company includes International Game Technology and its consolidated subsidiaries and variable interest entities (VIEs).

Italicized text in this document with an attached superscript trademark or copyright notation indicates trademarks of IGT or its licensors. For more information about our trademark and copyright ownership information, please visit our website, www.IGT.com.

IGT's principal corporate executive offices are located at:

9295 Prototype Drive

Reno, Nevada 89521

Telephone: (775) IGT-7777

Through the Investor Relations link on our website, we make available free of charge, as soon as reasonably practical after such information has been filed or furnished to the Securities and Exchange Commission (SEC), our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act and proxy statements on Schedule 14A. Our corporate governance guidelines and charters for our Audit, Compensation, and Nominating and Corporate Governance Committees are also available on our website. This information will be mailed in print form free of charge to any shareholder upon request.

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BUSINESS SEGMENTS

We derive our revenues from the distribution of electronic gaming equipment and network systems, related services and licensing of intellectual property (IP). Operating results reviewed by our chief decision maker encompass all revenue sources within each geographical customer region. We currently view our business in two operating segments, each incorporating all types of revenues.

- ♣ North America consists of our operations in the US and Canada, comprising 77% of consolidated revenues in fiscal 2007 and 79% in 2006 and 2005.
- ♣ International encompasses all other IGT operations worldwide, comprising 23% of consolidated revenues in fiscal 2007 and 21% in 2006 and 2005.

Additionally, certain income and expenses related to company-wide initiatives are managed at the corporate level and not allocated to an operating segment. Other segment and financial information contained in BUSINESS SEGMENT RESULTS of our management discussion and analysis (MDA) and Note 18 of our Consolidated Financial Statements is incorporated here by this reference.

PRODUCTS

We provide a broad range of electronic gaming equipment and network systems, as well as related services, parts, game theme conversions, and IP licensing.

- ♣ Traditional casino-style slot machines determine the game play outcome at the machine, encompassing:
 - s classic physical reel slots
 - s video poker slots
 - s video reel slots
 - s Class III, a regulatory classification for a traditional casino-style slot machine used in tribal jurisdictions
- ♣ Wide area progressive (WAP) jackpot systems link machines across several casinos within a designated jurisdiction
- ♣ Central determination system (CDS) machines are connected to a central server which determines the game outcome, including:
 - s video lottery terminals (VLT) for government sponsored applications
 - s electronic or video bingo machines
 - s Class II, a regulatory classification for electronic bingo systems used in tribal jurisdictions
- ♣ Amusement With Prize (AWP) games, popular in Europe, incorporate limited payouts with features that allow players to exercise an element of skill and strategy
- ♣ Pachisuro machines or pachislots distributed in Japan are a smaller, simpler variation of American slots, featuring low payouts
- ♣ The *IGT Advantage* Casino System is a suite of fully integrated casino management solutions for:
 - s machine accounting
 - s patron management
 - s cage and table accounting
 - s ticket in/ticket out
 - s bonusing (jackpots and promotions)
 - s table game automation

- ♠ *IGT Mariposaä* integrated casino customer relationship management (CRM) solutions feature fully integrated marketing and business intelligence systems which provide analytical, predictive, and management tools to maximize casino operational effectiveness
- ♠ *MP Seriesä* Multi-Player suite provides community-style gaming on a common display, especially useful in jurisdictions where live table games, such as roulette or baccarat, are not allowed
- ♠ *Digidealä* electronic table games include live dealer hosted configurations with digital cards and live chips or virtual chips/electronic credits, as well as a fully virtual platform that can be approved as a slot game, providing table-like gaming for slot only or limited table jurisdictions

We supply our gaming products directly to the customer or through distributors in certain jurisdictions. We also offer equipment contract financing for qualified customers and development financing loans to select customers for new or expanding gaming facilities.

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REVENUE STREAMS

We have two revenue streams – gaming operations and product sales.

Gaming operations generate recurring revenues by providing customers with our proprietary gaming products, services or IP under a variety of participation or fixed daily/monthly fee billing arrangements. Gaming operations comprised 52% of consolidated revenues in fiscal 2007 and 50% in 2006 and 2005. See Note 1 of our Consolidated Financial Statements for additional information regarding pricing arrangements and revenue recognition.

A number of factors influence gaming operations revenues and gross margins, including the number and type of machines in service, levels of play (which are somewhat dependent on casino seasonal trends), and variations in pricing arrangements. Gross margins also include the cost of funding progressive jackpot payments to winners, which is subject to interest rate volatility. We monitor the productive life cycle of our proprietary games and systematically replace units experiencing declining play levels with newer games.

We place games under recurring revenue arrangements in over 100 gaming jurisdictions worldwide. The IGT installed base of gaming machines recorded on our balance sheet as part of property, plant and equipment includes casino operations and lease operations units. IGT casino operations units are comprised of traditional casino, Class III, Class II, and other higher yielding gaming machines. IGT lease operations units consist of VLT and other lower yielding gaming machines. Casino owned units are machines sold that also provide a recurring royalty fee.

GAMING OPERATIONS MACHINES

Product Sales include the sale of gaming machines, network systems, parts, game theme conversion kits, related equipment, services, and IP licensing. Product sales comprised 48% of consolidated revenues in 2007 and 50% in 2006 and 2005. As our gaming products become more systems-centric in nature, we anticipate a growing portion of sales from non-machine products. Non-machine revenues (including network systems with related licensing fees, parts and conversions, as well as other miscellaneous royalty fees and services) collectively comprised 30% of product sales in fiscal 2007, 29% in 2006, and 26% in 2005.

PRODUCT SALES COMPOSITION

Table of Contents**PRODUCT DEMAND**

A number of factors drive demand for our gaming products.

We believe customer strategies to upgrade casino floors with newer games and technologies that combine higher yields with cost savings, convenience, and other benefits drive replacement sales. New or emerging technology that provides operators with a favorable return on investment has the ability to accelerate a machine replacement cycle. This technology may come in the form of new gaming machine cabinets with more processing power or new features having a positive impact on player appeal and/or operator profits.

Casino expansion or new casino openings generate new product demand and stimulate replacement demand at neighboring casinos, which upgrade in order to remain competitive. New jurisdictions establishing legalized gaming also create product demand, contributing to significant growth in the installed base of gaming machines during the past few decades. Finally, a gaming equipment supplier's reputation for consistently delivering and supporting quality products will encourage operators to select them over others.

STRATEGIC ACQUISITIONS

As part of our ongoing efforts to create shareholder value, we complement our internal resources through strategic alliances and business acquisitions that:

- ♣ offer opportunities to diversify our geographic reach
- ♣ expand our product lines and customer base
- ♣ leverage our technological and manufacturing infrastructure to increase our rates of return

Our significant business acquisitions include:

Company Acquired <i>(in millions)</i>	Date	Cost
Digideal Corporation	June 2007	\$ 31.2
Venture Catalyst Incorporated (VCAT)	December 2006	21.9
WagerWorks, Inc.	August 2005	89.1
Acres Gaming Incorporated	October 2003	134.0
Anchor Gaming	December 2001	1,323.9

Additional information about current year acquisitions is contained in Note 5 of our Consolidated Financial Statements. WagerWorks provided additional opportunities to expand the distribution of content across new channels and mediums. Acres Gaming further positioned us as a leading global provider of casino gaming systems. Anchor Gaming helped to grow our business presence by allowing us to consolidate all activities of the Spin For Cash Joint Venture and afforded us opportunities to further integrate complementary resources, most significantly the *Wheel of Fortune* brand and patents.

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PRODUCT DEVELOPMENT

The vision behind IGT product development is to serve players better by utilizing the power of networked gaming, information technology, game design, and services to maximize the potential for operator profitability. The foundation of our business model is built on the creation and delivery of game content through integrated casino systems solutions to machine platforms. Our product innovation reflects the anticipation of consumer needs, as well as customer feedback and market trends.

We support our product development efforts through a considerable emphasis and investment in research and development (R&D) of future technology, which we believe enables IGT to maintain a leadership position in the industry. We dedicate over 1,500 employees worldwide to product development in various disciplines from hardware, software and firmware engineering to game design, video, multimedia, graphics and sound. Our investment in R&D totaled \$202.2 million in fiscal 2007, \$188.5 million in 2006, and \$138.4 million in 2005.

Our primary development facilities are located in Nevada, and we have several design centers strategically located worldwide, allowing us to quickly respond to unique market needs and local player preferences. IGT global design centers provide local community presence, customized products, and regional production where beneficial or required. Our UK facility designs and configures AWP and casino games. Our Japan team designs IGT pachisuro games in conjunction with a third party manufacturer. Two teams in Australia design club and casino products. In addition, our corporate R&D group, IGT Labs, is also dedicated to establishing strategic partnerships with key technology providers.

During fiscal 2007, we began a World Game Platform initiative to unify and standardize our technology, design, and development across all global markets. We anticipate reducing time and cost to market by having standardized development worldwide enabling content delivery through uniform technologies. We believe this initiative will facilitate development and deployment of games into any combination of gaming markets, including both thick (processing at the machine) and thin (processing at the server) client-server environments.

Table of Contents***Games***

We combine the elements of math, play mechanics, sound, art and technological advancements with our library of entertainment licenses and patented IP to provide gaming products with a high degree of player appeal. We continue to expand our game libraries, emphasizing development of game content to address changing consumer preferences and other market trends. Our objective is to develop games that incorporate exciting winning combinations, and appealing graphics and sound.

We actively develop new themes for video reel and video poker, as well as enhance our classic spinning reel products with popular multi-line, multi-coin configurations. We make ongoing efforts to upgrade and optimize our proprietary flagship theme games, such as *Wheel of Fortune*, *Megabucks*, and *Star Wars*, with theme refreshers and innovative features to enhance play. Our games are invented primarily by employee designers and artists. Although not materially dependent on third party developers, we find they can provide added sources of creative ideas and game content.

Using our Product Performance Testing system, we evaluate and forecast the acceptance of new products to quickly identify the more popular gaming concepts. A central computer monitors the performance of games placed in several key casino locations that provide a representative sampling. This system results in a quicker release of higher performing games incorporating market-tested concepts.

Fiscal 2007 highlights

Through our global design facilities, we developed just under 1,000 game themes, including those for traditional gaming environments and unique versions customized for video lottery, CDS, Class II, and international markets. We remain a leader in spinning reel and video poker games in North America, but competition is intense in all categories. We are vigorously competing in video game development and continue designing innovative spinning reel and poker games.

We launched additional group play products offering community rounds where multiple players can participate in the same bonus for added player interaction and high-stakes player attraction. Group player offerings introduced in fiscal 2007 include *Indiana Jones* and *Ancient Chinese Secret*. In fiscal 2008, we plan to introduce *Wheel of Fortune Super Spin Five-Station*, a smaller version of our popular *Wheel of Fortune Super Spin*, *eBay* and *The Price is Right Multi-Station*.

We continued the expansion of our winning multi-level progressive (MLP) games that provide more frequent lower level progressive jackpots. The recent introduction of our 5-reel *Wheel of Fortune* MLP in Nevada and Native America jurisdictions has been well received. This game allows players to buy-up to different bonus levels, a feature designed to increase the average wager. We plan to continue developing future MLP products, adding WAP features and group play options.

We further developed our *MP Series* of interactive, multi-player station gaming products. The *MP Series* product is comprised of several individual stations connected to a central control device and is available in numerous modular configurations based on operator preferences. We also expanded the *MP Series* product suite this year with the addition of *Digideal* electronic table games. We expect multi-player and electronic table games will become increasingly important, especially in jurisdictions that do not allow live versions of table games. We plan to introduce Baccarat and Roulette themes in the *MP Series* during the first half of fiscal 2008 and anticipate other game themes to follow in the future.

Under arrangements to facilitate development of Walker Digital casino innovations, we initiated our first product collaboration with *Guaranteed Play*, a creative new method of wagering game play. Instead of one wager at a time, *Guaranteed Play* patrons have the option of purchasing multiple hands of poker or spins of slot play at a fixed price in advance. We introduced *Guaranteed Play* Poker in limited markets during the latter half of fiscal 2007 and expect a wider release to follow in early fiscal 2008. We anticipate future product offerings will integrate *Guaranteed Play* through our server-based network (*sb*) to give operators the ability to package slot play with other promotional offerings.

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Network Systems

Games and network systems continue to converge as markets increasingly require this synergy for regulatory purposes, and operators rely more and more on systems to manage game performance and player preferences. As we develop and integrate gaming systems, we recognize networks have the power to dramatically change the appearance and improve the usefulness of gaming systems. Limited gaming networks currently include *IGT Advantage* casino management systems, *EZ Pay* ticket systems, CDS, and WAP systems.

Focusing on a more comprehensive enterprise-wide network systems solution, our ongoing server-based gaming (*sb*) development is designed to provide IGT customers with tools to more efficiently manage the casino floors and deliver exciting new gaming experiences to players. We believe widespread adoption of *sb* will require implementation of an open architecture that allows distribution of features and applications across multiple gaming manufacturers' platforms and devices. We are committed to leading the networked gaming transformation through collaboration with the Gaming Standards Association (GSA) to support and implement industry standard protocols enabling a seamless interface with a variety of platforms. In January 2008, we plan to open the IGT Global Technology Center and Interoperability Center, a facility open to manufacturers, strategic partners, and system integrators for compatibility and performance testing of their GSA protocol products, with an emphasis on third-party interface integration assessments.

At the same time, we are focusing significant development efforts on network applications and features providing an enhanced player experience at the machine. Our customers indicate it is important for *sb* to have features beyond operational efficiencies and game download functionality. We believe the acceptance of server-based gaming also depends on its ability to change the player's experience on the casino floor and offer new ways for casinos to market to their players. In our view, applications that help casinos retain players and create additional revenue opportunities will motivate the operator to implement *sb* enterprise-wide. We are engineering these features now, and expect to demonstrate for operators and regulators the security, efficiency and revolutionary player and casino marketing features this technology can provide.

Our business partners at *sb* pilot properties are testing the initial operational aspects of IGT's *sb* system and providing valuable feedback to ensure we design products that meet their business needs and regulatory requirements. Five commercial field trials of our server-based system are currently underway in California, Nevada, Michigan and Missouri. The information gathered in the past year from these pilots has enabled IGT to identify issues associated with integration of different machine platforms, slot accounting and player tracking systems. During the first half of fiscal 2008, we plan to upgrade our field trials to the next phase with GSA protocols.

We will continue combining the power of the network with server-based applications, casino transactional systems, and business intelligence software, and unique new gaming products. Toward these efforts, we acquired the Mariposa software, which provides IGT with data mining technology and predictive modeling. This tool is designed to enable the casino to improve profitability by managing and targeting its activities according to projected customer behaviors. Additionally, we continue supporting and enhancing our *IGT Advantage* Casino System, a suite of traditional casino management software providing operators with real-time information in the areas of slot machine performance, patron management, table game reporting and analysis, along with cage and credit data. This system suite features *EZ Pay* Ticketing, as well as direct player marketing systems such as *Bonusing* and *NexGen* interactive multi-media displays.

We continually adapt game content for video lottery CDS. Our CDS features include cross property bingo draws, game software downloading, remote game configuration, full accounting and performance reports, virtual private networks and ticket-in/ticket-out (TITO) compatibility.

Platforms

Platforms are the means by which players interact with the games, and we support several in order to maximize our game distribution reach. The challenge of platform development is in determining how to effectively use a wide range of technologies to satisfy global markets with the right features, cost points, and delivery dates. The ultimate goal is ensuring that our content can be deployed through a number of different channels, including traditional gaming platforms, as well as wireless networks, and the internet.

We serve evolving gaming markets with strength and flexibility. Multi-line, multi-coin video games are currently among the most popular games on the casino floor. In response to this trend, our products employ advanced technology enhancing entertainment and communication features, while retaining many of the familiar and popular features of legacy games.

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Our *Advanced Video Platform* or *AVP* is designed to support the next generation of video games. This platform provides improved graphic capabilities such as:

- ♣ full screen live streaming videos
- ♣ animations with vivid colors
- ♣ enhanced stereo and surround sound
- ♣ expanded storage capacity, allowing for complex bonus features

To facilitate future server-based gaming applications, our *AVP* is capable of supporting GSA communication standards necessary for the integration of open, casino wide networks in addition to video capabilities required to support a service window. We are further diversifying the *AVP* cabinet library in fiscal 2008 with liquid crystal display widescreens and a consistent full featured set of products available in all major configurations. Additionally, we expect to introduce an innovative new multi-layered display providing a crisp 3-D representation of spinning reels, appealing to video and reel players alike.

Our library of games continues to grow with *AVP* as our standard development platform. We also continue to support traditional platforms, including our:

- ♣ *Game King* video platform using the 80960 processor, offering a single or multi-game format, a touch screen monitor, and interactive video slot games with animated graphics and secondary bonusing features
- ♣ *S2000* and *Reel Touch* 80960 spinning reel platform, which combines one of our broadest game libraries with upgraded processor boards and an enhanced sound package
- ♣ *VLC 8800* platform widely used in government sponsored jurisdictions, with the ability to connect with most major North America video lottery control systems
- ♣ Blue Chip platform used in Australia and New Zealand
- ♣ Barcrest MPU5 AWP platform produced in the UK
- ♣ Pachisuro platform used in Japan

We continue leveraging our collective design facilities worldwide in developing game content for delivery through third party platforms, interactive digital TV, cell phones, the internet, and other mobile gaming outlets, as well as networking technology for remote game management and downloading. Our fiscal 2007 efforts to bring premium branded games to the internet casino platform resulted in the development and certification of an online version of IGT *Megabucks* expected to release in fiscal 2008. Internet versions of other popular *Megajackpots* themes are expected to follow. Additionally, we created *rgs* or remote game server, which will facilitate deployment of our games to various platforms. During fiscal 2007, we also developed a new Barcrest Triple-7 video cabinet for European personal computer game content.

Intellectual Property

Our patents, trademarks, copyrights and other IP rights are significant assets. We seek to protect our investment in R&D and the unique, distinctive features of our products by perfecting and maintaining our IP rights. We obtain patent protection covering many of our products and have a significant number of US and foreign patent applications pending. Our portfolio contains a significant number of domestic and foreign patents related to a variety of video and electronic gaming equipment and systems, including game designs, bonus and secondary game features, and gaming device components.

We market most of our products under trademarks and copyrights that provide product recognition and promote widespread acceptance. Our products may also contain other content licensed from third parties, such as trademarks, fictional characters, or storylines. We seek protection for our copyrights and trademarks in the US and various foreign

countries, where applicable.

Others may infringe upon or develop products in violation of our IP rights, and the issue of patents under pending applications is not a certainty. We are subject to general litigation risk related to our ability to enforce and maintain patents, copyrights, trademarks and other IP rights. Seeking enforcement of or declaring our IP rights often results in other parties asserting that our rights are invalid or alleging rights of their own against us. We describe certain IP litigation in Note 16 of our Consolidated Financial Statements.

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We market our gaming products in legalized gaming jurisdictions around the world. While our most significant markets are in North America, we continue to pursue expanding international markets. Opportunities, challenges and our successes vary across these jurisdictions. In the following, we describe various regional development expectations about market size, timing, and government actions. We cannot be certain these expectations will be realized or the extent to which IGT will benefit if they are realized.

North America

As an industry leader, we have participated in the growth of North America gaming, beginning in the early 1990s with Midwest riverboats, through the spread of tribal casinos, and into non-traditional venues such as racetracks (also known as racinos) and bingo parlors. We estimate the base of gaming machines installed in North America has increased from 184,000 machines in 1991 to 889,000 machines in 2007. Our estimate of the installed base of gaming machines in North America below is based on internal data and information provided by various gaming agencies.

September 30,	Estimated Market Base	
	2007	2006
Traditional	219,000	224,000
Native America Tribal	123,000	114,000
Racino/Lottery	36,000	33,000
US Western	378,000	371,000
Traditional	125,000	112,000
Native America Tribal	117,000	103,000
Racino/Lottery	22,000	22,000
US Central	264,000	237,000
Traditional	59,000	62,000
Native America Tribal	38,000	36,000
Racino/Lottery	60,000	41,000
US Eastern	157,000	139,000
Traditional	52,000	51,000
Racino/Lottery	38,000	38,000
Canadian	90,000	89,000
Total North America	889,000	836,000

Gaming continues to grow in popularity as a leisure activity in North America. This growth is facilitated by the development of newer, more innovative gaming devices, as well as by the legalization of gambling in jurisdictions where governments are looking for new ways to support public operations. We expect to benefit from further expansion of legalized gambling jurisdictions in fiscal 2008. Legislative actions and the passage of voter referendums are providing new and expanding opportunities in Florida, Pennsylvania, Kansas, Indiana, Washington and California. We continue monitoring gaming legislation in several other states, including Maryland, Massachusetts, Illinois, and Texas. With our leadership position in traditional and Class III gaming products and our growing presence in CDS and Class II products, we believe we are well positioned to be a supplier of choice in any new or expanding jurisdictions.

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Sales and Service Regions

Our North America offices are organized into four regions to better respond to customer needs.

US Western

Legalized gaming established in 10 of the 11 western states represents approximately 43% of gaming devices in North America, including:

- ♠ Traditional casinos in Nevada and Colorado
- ♠ Class II and Class III casinos in California, Arizona, Colorado, Idaho, Oregon, Wyoming and New Mexico
- ♠ CDS facilities in Washington
- ♠ VLT facilities in Oregon, Montana and New Mexico

Nevada holds the largest share of traditional gaming machines in this region with approximately 202,000 machines in more than 280 casinos statewide, with Las Vegas having the highest concentration and continuing to grow. Current casino projects approved or under construction will provide further growth opportunities over the next three years. California Native America properties have the second largest number of machines and the highest concentration of Class II gaming within the region. The California legislature approved five new tribal compacts in June 2007, allowing for an incremental 22,500 machines in the state. Opponents of four compacts have gathered signatures for a referendum to disallow the compacts and the addition of 17,000 of the approved incremental machines. Although the number and timing of incremental machines remains uncertain, we anticipate opportunities will develop over the course of the next few years.

We continue to increase our share of machines in Washington State through competitive pricing and a steady supply of CDS game titles. We expect future opportunities in Arizona, Colorado, New Mexico and Idaho will provide both replacement and expansion growth.

US Central

Spanning 18 states and approximately 30% of North America gaming devices, the central region encompasses:

- ♠ riverboats in Illinois, Indiana, Iowa, Louisiana, Mississippi and Missouri
- ♠ land based casinos in Michigan and Louisiana
- ♠ Class III casinos in Iowa, Kansas, Louisiana, Michigan, Minnesota, Mississippi, North Dakota, South Dakota, and Wisconsin
- ♠ Class II and Class III properties in Oklahoma
- ♠ racinos in Arkansas
- ♠ VLT facilities in Louisiana and South Dakota

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The largest concentration of gaming devices in this region is in the riverboat jurisdictions and land-based casinos with approximately 125,000 machines in 96 locations. Tribal properties in Iowa, Kansas, Louisiana, Michigan, Minnesota, Mississippi, North Dakota, South Dakota, and Wisconsin include 125 casinos having approximately 73,000 Class III gaming devices, with continuing opportunities for TITO conversions and legacy product replacements.

Oklahoma currently contains approximately 42,000 gaming machines. We initiated Class III game installations in the state during fiscal 2005, and our installed base continues to grow. Oklahoma also became the 19th state to join the IGT Native American Progressive Systems links in 2006.

Kansas legislation passed in March 2007 permits four destination casinos and slots at two racetracks. The casinos will be owned by the state lottery and managed by private companies. Indiana also passed legislation allowing slots at two racetracks during fiscal 2007, and we anticipate Louisiana and South Dakota VLT replacements in the near term.

US Eastern

Comprising approximately 17% of the North America installed base, the eastern region includes:

- ♣ traditional casinos in Atlantic City, New Jersey and cruise ships

- ♣ Class III tribal casinos in Connecticut, New York, and North Carolina

- ♣ centrally monitored facilities in Delaware, Florida, Maine, New York, Pennsylvania, Rhode Island, and West Virginia

- ♣ Class II and/or CDS facilities in Alabama and Florida

Atlantic City has the largest number of machines in the region with approximately 36,000 machines. Pennsylvania slot parlor openings in 2007 are adding new competitive pressures to this region, along with mergers concentrating casino ownership, which may have some impact on growth. However, we anticipate openings of new Atlantic City casinos in 2011 will provide additional gaming expansion opportunities.

New York and Connecticut casinos continue expanding their Class III facilities. Connecticut tribes announced two new hotel casinos, and at least one New York tribe announced a new hotel/casino expansion during fiscal 2007.

Delaware, New York, and Rhode Island are centrally monitored states with games distributed under long-term revenue sharing arrangements. We continue growing our share of machines installed at existing facilities through the reallocation process based on the quality of game performance.

Pennsylvania opened five gaming properties in fiscal 2007 with 10,000 machines. Two more facilities are expected to open in fiscal 2008 with up to 14 total properties open by the end of 2010. We are limited by regulation to 50% of each casino floor for 30 months following each casino opening.

Alabama CDS facilities plan future expansions in at least two locations. We provide machines and systems to this jurisdiction through revenue sharing arrangements, installing their first *IGT Advantage* system in 2007.

Florida's tribal compact negotiations are ongoing to determine when Class III machines will be allowed in the state.

We anticipate this action could increase the Florida tribal machine count by as many as 15,000 units, gradually replacing Class II machines altogether. Additionally, three Florida racinos opened in Broward County during 2007. A Miami-Dade County local option vote is scheduled for January 2008, which if passed, will allow for the installation of up to 2,000 gaming machines at each of the three eligible pari-mutuel facilities in the county.

Canada

Every Canadian province has some form of gaming, which we service with four facilities in Canada providing sales and technical support. Casinos, racinos and public gaming in Canada make up 10% of the North America installed base. Government corporations in Alberta, Manitoba, Quebec, Saskatchewan, and the four Atlantic provinces operate video lottery programs. While demand in Canada has stabilized, replacements and expansions provide steady machine, parts, and game software sales.

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International

IGT offices are located internationally to better serve customer needs and address local regulatory issues. Our pursuit of international growth opportunities outside of North America began in 1986. Our international strategy capitalizes on our North America experience, while customizing products for unique local and regulatory environments. International headquarters located in the Netherlands oversees operations servicing:

- ♠ casinos in Asia, Europe, Latin America, Russia and South Africa

- ♠ clubs and casinos in Australia and New Zealand

- ♠ AWP facilities and casinos in the UK and continental Europe

- ♠ pachisuro parlors in Japan

- ♠ US military bases overseas

The outlook for international market expansion continues to improve as support increases for legalized casinos as a means of promoting tourism revenue. We anticipate increasing financial contributions from our international operations as these markets continue growing.

Europe

Our Netherlands office opened in 1992 to service casino markets in continental Europe, the Middle East and North Africa. Casinos and slot halls in these regions compete with non-casino environments such as pubs and arcades. We anticipate moderate growth in Europe's installed base of gaming machines, and cashless solutions continue driving replacement units.

Latin America

With offices in Argentina, Mexico, and Brazil, we market gaming equipment in several legalized gaming jurisdictions in Latin America. In fiscal 2005 we established an office and began placing CDS Video Bingo units in Mexico. Mexico growth continues, with an installed base of approximately 7,500 units at September 30, 2007. We also anticipate further CDS development in other Latin America jurisdictions.

South Africa

Our office in Midrand, Gauteng services the gaming markets located in Africa, Sub-Saharan Africa and the Indian Ocean Islands. Casino gaming in South Africa is governed under its 1996 National Gambling Act, allowing for the allocation of up to 40 casino licenses in nine provinces. We introduced WAP games in South Africa during fiscal 2006. Limited-payout machines are also providing new expansion opportunities in this jurisdiction.

Asia

Our Macau office began servicing the Asia region in fiscal 2005. We expect continuing growth in Macau and the surrounding region, as countries such as Singapore, Vietnam, Taiwan, South Korea and Cambodia consider and implement further gaming expansion and development. During fiscal 2007, we established a sales office in the Philippines and a representative office in Beijing to pursue opportunities in China.

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Australia and New Zealand

Australia is one of the largest and most established markets for video gaming products outside of North America. Our offices in Australia and New Zealand provide sales and customer service for casino, club, and hotel gaming. New South Wales, Australia's largest jurisdiction, recently approved TITO cashless technology.

Although harm minimization continues to be an important political issue in this region, most of the more restrictive gaming measures are fully implemented, and our experience indicates operator confidence is returning to the market. Major Australian operators are expanding their gaming operations outside Australia providing additional expansion opportunities.

United Kingdom

We established full-scale operations in Manchester with the acquisition of Barcrest Limited in March 1998. Facilities were added in the Midlands region during fiscal 2002 for casino gaming implementations under the UK Gambling Act. Barcrest is a leading manufacturer of AWP games and top box products, servicing customers in the UK and continental Europe. AWP games generally provide lower yields and have shorter product life cycles. Demand in UK markets is primarily replacement driven, dominated by pubs, licensed betting offices (LBO), bingo halls and arcades that expect frequent new releases. The UK installed base is approximately 240,000 units.

Barcrest efforts encompass three design centers focusing on UK products and one design center focused on products for continental Europe. In addition to AWP games, Barcrest is increasingly focused on video content, systems, and remote gaming products. During fiscal 2007, video game content supply agreements were secured with major UK LBO chains and *Kerchingcasino.com*, an online casino, was launched.

Japan

We have served the gaming market in Japan since 1990 with engineering, development, sales, and administration from our head office in Tokyo and a logistics office in Nagano. Our third-party manufacturing relationship with Sega Sammy is helping us be a more competitive and consistent performer in the pachisuro marketplace.

Japan began transitioning from Regulation-4 (Reg-4) to Regulation-5 (Reg-5) games during 2006, and the removal of all Reg-4 units was required by September 30, 2007. Reg-5 games are restrictive in nature and less appealing to players. As customers are taking time to adjust to this transition, the overall installed base contracted during fiscal 2007 to a current estimate of 1.2 million units.

Internet

We provide online casino services from Alderney in the British Channel Islands. We provide internet gaming services only in jurisdictions where online gaming is legal.

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COMPETITION

The market for gaming machines and network systems is highly competitive, constantly evolving and subject to rapid technological change. Competition is a significant driver of new product development. Principal competitive factors include:

- ♣ product functionality and features
- ♣ product architecture and technological innovations
- ♣ availability and quality of support
- ♣ ease and speed of product implementation
- ♣ vendor and product reputation
- ♣ knowledge of gaming industry practices
- ♣ customer acceptance and player preference

We believe IGT has a global competitive advantage as a result of:

- ♣ broad alliances and a long history with customers
- ♣ the breadth of our gaming products
- ♣ a dynamic and diverse library of innovative and strong performing games
- ♣ the development of systems that enhance operator profitability
- ♣ an extensive collection of intellectual properties
- ♣ high levels of customer service and support
- ♣ the financial strength to aggressively invest in R&D
- ♣ an extensive, well established infrastructure of sales and manufacturing
- ♣ worldwide recognition and geographic diversity

Our competitors include, but are not limited to, the following manufacturers that have developed casino-style gaming products and are either authorized to sell products or are in the licensing process in many US and foreign gaming jurisdictions:

- ♣ Ainsworth Gaming Technology
- ♣ Aristocrat Leisure Limited
- ♣ Aruze (formerly known as Universal)
- ♣ Bally Technologies, Inc. (formerly Alliance)
- ♣ Franco Gaming, Ltd. (a division of Recreativos Franco)
- ♣ Gauselmann Group (Atronic)

- ♠ Konami Co. Ltd.
- ♠ Lottomatica S.p.A. (acquired GTech in 2006)
- ♠ Multimedia Gaming Inc.
- ♠ Novomatic Industries
- ♠ Progressive Gaming International Corporation (formerly Mikohn)
- ♠ Rocket Gaming Systems
- ♠ Scientific Games Corporation
- ♠ Shuffle Master, Inc.
- ♠ Unidesa (part of the Cirsa Group)
- ♠ Video Game Technologies
- ♠ WMS Industries, Inc.

OPERATIONAL OVERVIEW

Manufacturing and Suppliers

In addition to our main production facility in Reno, Nevada, we manufacture AWP and UK casino products in the UK and pachisuro machines through a third party manufacturer in Japan. International casino and club gaming machines are fabricated, whole or in kit form, at our Reno facility. Our manufacturing operations primarily involve the configuration and assembly of electronic components, cables, harnesses, video monitors and prefabricated parts purchased from outside sources. We also operate facilities for cabinet manufacturing, silkscreen, and digital design. We have a broad base of material suppliers and utilize multi-sourcing practices to ensure component availability. Our Reno facility currently devotes more than 850,000 square feet to product development, manufacturing, warehousing, shipping and receiving. During the current year, we consolidated several Las Vegas leased facilities into our newly constructed 37-acre central campus to be completed in fiscal 2008. Maintaining our commitment to quality during fiscal 2007, we renewed our ISO 9001.2000 industry certification at all of our manufacturing facilities. ISO standards represent an international consensus with respect to the design and use of practices intended to ensure ongoing customer satisfaction with consistent delivery of products and services.

We generally carry a significant amount of inventory related to the breadth of our product lines. We reasonably expect to fill our order backlog within the next fiscal year, totaling approximately \$327.6 million at October 31, 2007 and \$353.9 million at October 31, 2006.

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Sales and Distribution

We provide products and services to private and governmental gaming operators. We promote our products through a worldwide network of sales associates. We use third party distributors and agents in certain markets under arrangements that generally do not specify minimum purchases and provide for termination if certain performance standards are not maintained.

Customer Service

We consider customer service an important aspect of our overall marketing strategy and a key factor differentiating us from our competitors. We provide product delivery and services for installation, warranty, after-market technical support, new product training and support, supplemental equipment and spare parts, product retrofit and game conversions, as well as WAP jackpot network systems and internet casino operations. We employ trained personnel in over 50 customer service centers worldwide.

IGT provides access to product information and customer service 24 hours a day, seven days a week. We also offer customers a variety of classes through the IGT Training University to ensure their employees can successfully use our products to their full potential. We provide 24-hour customer support through our website (www.IGT.com) and a fully staffed Global Support Center telephone hotline, with access to a full range of field support engineering resources to resolve technical issues.

Regulatory Compliance

IGT is dedicated to regulatory compliance worldwide in order to ensure that our products meet requirements in each gaming jurisdiction and that we obtain the necessary approvals and licenses. We conduct business in most jurisdictions where gaming is legal and hold licenses where required. We submitted over 51,000 products for regulatory approval during fiscal 2007.

Employees

As of September 30, 2007, we employed approximately 5,400 individuals worldwide, including 4,400 in North America and 1,000 internationally. We believe we have favorable relationships with our employees. IGT is committed to providing employees a stable and rewarding work environment, with opportunities to grow their talents and share in company successes, which they make possible. See Note 4 of our Consolidated Financial Statements about our employee benefit plans.

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GOVERNMENT GAMING REGULATION

We operate in most legal casino gaming jurisdictions worldwide, as well as in a significant number of legalized lottery jurisdictions. The manufacture and distribution of gaming equipment, systems, and services, as well as the operation of casinos, is subject to regulation by a variety of local and federal agencies, with the majority of oversight provided by individual state gaming control boards. While the regulatory requirements vary from jurisdiction to jurisdiction, most require:

- ♣ licenses and/or permits
- ♣ findings of suitability for the company, as well as individual officers, directors, major stockholders and key employees
- ♣ documentation of qualification, including evidence of financial stability
- ♣ specific approvals for gaming equipment manufacturers and distributors

Our operating entities and key personnel have obtained or applied for all required government licenses, permits, registrations, findings of suitability and approvals necessary to manufacture and distribute gaming products in all jurisdictions where we do business. Although many regulations at each level are similar or overlapping, we must satisfy all conditions individually for each jurisdiction.

Laws of the various gaming regulatory agencies serve to protect the public and ensure that gaming related activity is conducted honestly, competitively, and free of corruption. Regulatory oversight additionally ensures that the local authorities receive the appropriate amount of gaming tax revenues. As such, our financial systems and reporting functions must demonstrate high levels of detail and integrity.

Certain regulators not only govern the activities within their jurisdiction, but also oversee activities that occur in other jurisdictions to ensure that we comply with local standards on a worldwide basis. As a Nevada corporation, state regulatory authorities require us to maintain Nevada standards for all operations worldwide. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is provided in Exhibit 99 of this Annual Report on Form 10-K, incorporated herein by reference. The nature of the industry and our worldwide operations make this process very time consuming and require extensive resources. We employ additional community staff members and legal resources familiar with local customs in certain jurisdictions to assist in keeping us compliant with applicable regulations worldwide. Through this process, we seek to assure both regulators and investors that all our operations maintain the highest levels of integrity and avoid any appearance of impropriety. We have never been denied a gaming related license, nor have our licenses ever been suspended or revoked.

Responsible Gaming

Fiscal 2007 marks the 10th anniversary of the IGT Responsible Gaming (RG) Program. Corporate social responsibility has taken on a new dimension since the inception of our program ten years ago. Gaming jurisdictions can suffer negative public backlash due to lack of attention to the issue of problem gambling. As our markets expand internationally, so must our understanding of social protections and responsible gaming in different cultures. IGT works closely with new gaming jurisdictions to develop sound responsible gaming policies and guidelines to help ensure programs remain viable over the long term.

As a technology provider to the gaming industry, our approach to responsible gaming differs only slightly from that of the gaming operator, and the objectives are the same:

- ♣ raise awareness of the issue
- ♣ collaborate with customers and public policy makers in developing RG practices and programs
- ♣ educate our employees
- ♣ support research and treatment

Our experience has taught us that corporate social responsibility must be a cornerstone of any sound gaming program and is vital to sustaining our industry. We support our commitment to RG with funding for numerous federal, state and local organizations, conferences and events, including:

- ♠ Problem Gambling Center

- ♠ Responsible Gaming Education Week

- ♠ Problem Gambling Awareness Week
- ♠ National Center for Responsible Gaming (NCRG)

- ♠ National Council on Problem Gambling (NCPG)

- ♠ National Problem Gambling Helpline

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Item 1A. Risk Factors

Our ability to operate in our existing markets or expand into new jurisdictions could be adversely affected by changing regulations or problems with obtaining needed licenses or approvals.

We operate only in jurisdictions where gaming is legal. The gaming industry is subject to extensive governmental regulation by US federal, state and local governments, as well as tribal officials or organizations and foreign governments. While the regulatory requirements vary by jurisdiction, most require:

- ♣ licenses and/or permits
- ♣ findings of suitability
- ♣ documentation of qualifications, including evidence of financial stability
- ♣ other required approvals for companies who manufacture or distribute gaming equipment and services
- ♣ individual suitability of officers, directors, major stockholders and key employees

Any delays in obtaining regulatory approvals needed for expansion within existing markets or into new jurisdictions can negatively affect our opportunities for growth. Further, changes in existing gaming regulations may hinder or prevent us from continuing to operate in those jurisdictions where we currently do business, which would harm our operating results. In particular, the enactment of unfavorable legislation or government efforts affecting or directed at manufacturers or gaming operators, such as referendums to increase gaming taxes or requirements to use local distributors, would likely have a negative impact on our operations.

Slow growth in the number of new casinos or the rate of replacement of existing gaming machines could limit or reduce our future profits.

Demand for our products is driven substantially by the replacement of existing gaming machines, the establishment of new gaming jurisdictions, and the addition of new casinos or expansion of existing casinos within existing gaming jurisdictions. The establishment or expansion of gaming in any jurisdiction typically requires a public referendum or other legislative action. As a result, gaming continues to be the subject of public debate, and there are numerous active organizations that oppose gaming. Opposition to gaming could result in restrictions on or even prohibitions of gaming operations in any jurisdiction. In addition, the rate of growth in the North American marketplace has diminished. A continued reduction in growth or in the number of gaming jurisdictions or delays in the opening of new or expanded casinos could reduce the demand for our products.

Demand for our products could be adversely affected by changes in player and operator preferences.

As a supplier of gaming machines, we must offer themes and products that appeal to gaming operators and players. If we are unable to anticipate or timely react to any significant changes in player preferences, such as a negative change in the trend of acceptance of our newest systems innovations or jackpot fatigue (declining play levels on smaller jackpots), the demand for our gaming products could decline. Further, our products could suffer a loss of floor space to table games and operators may reduce revenue sharing arrangements, each of which would harm our sales and financial results. In addition, general changes in consumer behavior, such as reduced travel activity and redirection of entertainment dollars to other venues, could result in reduced demand for our products.

Our business is vulnerable to changing economic conditions.

Unfavorable changes in general economic conditions including recession, economic slowdown, or higher fuel or other transportation costs, may reduce disposable income of casino patrons or result in fewer patrons visiting casinos. Such a decline in the relative health of the gaming industry would likely result in a decline in the amount of resources our customers have to purchase our products and services. This may also result in reduced play levels, which could cause our cash flows and revenues from revenue sharing products to decline. Our operating results may be negatively impacted by a decrease in interest rates causing an increase in jackpot expense and a reduction of investment income.

Our success in the competitive gaming industry depends in large part on our ability to develop and manage frequent introductions of innovative products.

The gaming industry is intensely competitive, and many of our competitors have substantial resources and specialize in the development and marketing of their products. Because the gaming industry is characterized by dynamic

customer demand and rapid technological advances, we must continually introduce and successfully market new themes and technologies in order to remain competitive and effectively stimulate customer demand. Our customers will accept a new product only if it is likely to increase operator profits more than competitors' products. There is no guarantee that our new products will attain this market acceptance or that our competitors will not more effectively anticipate or respond to changing customer preferences. In

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addition, any delays by us in introducing new products on schedule could negatively impact our operating results by providing an opportunity for our competitors to introduce new products and gain market share ahead of us.

Failure to attract, retain and motivate key employees may adversely affect our ability to compete.

Our success depends largely on recruiting and retaining talented employees. The market for qualified executives and highly skilled, technical workers is intensely competitive. The loss of key employees or an inability to hire a sufficient number of technical staff could limit our ability to develop successful products and cause delays in getting new products to market.

We may be unable to protect our IP.

A significant portion of our revenues is generated from products using certain IP rights, and our operating results would be negatively impacted if we were unsuccessful in protecting these rights from infringement. In addition, some of our most popular games and features are based on trademarks, patents and other IP licensed from third parties. The continued success of these games may depend upon our ability to retain or expand these licenses with reasonable terms. We also depend on trade secret law to protect certain proprietary knowledge and have entered into confidentiality agreements with those of our employees who have access to this information. However, there can be no guarantees that our employees will not breach these agreements, and if these agreements are breached it is unlikely that the remedies available to us will be sufficient to compensate us for the damages suffered.

We may be subject to claims of IP infringement or invalidity.

Periodically we receive notification from others claiming that we are infringing their patent, trademark or other IP rights. Regardless of their merit, such claims may cause us to incur significant costs. Responding to these claims could also require us to stop selling or to redesign our products, to pay significant amounts in damages or enter into agreements to pay significant licensing fees or royalties. Additionally, if any of these claims prove successful, it could limit our ability to bring new products to market in the future.

Our gaming machines and online operations may experience losses due to fraudulent activities.

We incorporate security features into the design of our gaming machines and other systems, including those responsible for our online operations, designed to prevent us and our patrons from being defrauded. However, there can be no guarantee that such security features will continue to be effective in the future. If our security systems fail to prevent fraud, our operating results could be adversely affected. Additionally, if third parties breach our security systems and defraud our patrons, the public may lose confidence in our gaming machines and operations.

Our outstanding Senior Convertible Debentures subject us to additional risks.

Our 2.6% Debentures issued in December 2006 contain a net settlement feature. This feature entitles holders of Debentures to receive cash up to \$1,000 and shares for any excess conversion value determined in a manner in the indenture governing the Debentures. Consequently, if a significant number of Debentures are converted or redeemed, we would be required to make significant cash payments to the holders who convert their Debentures.

Our outstanding credit facility subjects us to additional risks.

Our Senior Credit Facility subjects us to a number of financial covenants, which could result in an event of default if not complied with. The Senior Credit Facility also includes restrictions that may limit our flexibility in planning for, or reacting to, changes in our business and the industry.

Investments and development financing loans could adversely impact liquidity.

We invest in and/or provide financing for expansion or construction of gaming locations and other business purposes. Such financing subjects us to increased credit risk in certain regions, as well as other inherent risks such as political or economic instability in related markets. Our liquidity or financial position may be negatively impacted if we are unable to collect on these loans or benefit from these investments.

Current environmental laws and regulations, or those enacted in the future, could result in additional liabilities and costs.

Manufacturing of our products may require the use of materials that are subject to a variety of environmental, health and safety laws and regulations. Compliance with these laws could increase our costs and impact the availability of components required to manufacture our product. Violation of these laws may subject us to significant fines, penalties or disposal costs, which could negatively impact our results of operations, financial position or cash flows.

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The risks related to operations outside of traditional US law could negatively affect our results.

We operate in many countries outside of the US and tribal jurisdictions with sovereign immunity which subjects us to certain inherent risks including:

- ♣ political or economic instability
- ♣ additional costs of compliance
- ♣ tariffs and other trade barriers
- ♣ fluctuations in foreign exchange rates outside the US
- ♣ adverse changes in the creditworthiness of parties with whom we have significant receivables or forward currency exchange contracts

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We expect our current properties will be adequate for our near-term business needs.

North America

Our largest manufacturing facility and corporate offices are located in Reno, Nevada, where we own a 1.2 million square foot facility that houses our manufacturing, cabinet production, silkscreen, engineering, sales and corporate administrative functions. This facility supports production for all of North America and all international markets, except Japan and the UK. We also lease 147,000 square feet of additional warehousing facilities in Reno under agreements expiring through June 2008.

We expect to complete construction in fiscal 2008 of our new 618,000 square foot Las Vegas campus consolidating several leased facilities. This new facility will house our largest sales and service force as well as warehousing and administrative functions. At September 30, 2007, we lease approximately 292,000 square feet of warehousing, sales and administration facilities in Las Vegas under agreements expiring between December 2007 and June 2008. Additionally, we lease approximately 366,000 square feet of warehousing, sales and service facilities throughout the US and Canada supporting local market needs under leases expiring between December 2007 and January 2016.

International

We own 149,000 square feet and lease 30,000 square feet under leases expiring through September 2010, which support manufacturing, sales and administrative functions in the UK. We own 12,000 square feet in New Zealand and lease 121,000 square feet in Australia under leases expiring through December 2011, for subassembly, sales and administration. All other international facilities total 227,000 square feet under leases expiring through April 2012.

Item 3. Legal Proceedings

IGT has been named in and has brought lawsuits in the normal course of business. We do not expect the outcome of these suits to have a material adverse effect on our financial position or results of operations. A description of certain of these matters is contained in Note 16 of our Consolidated Financial Statements and is incorporated herein by this reference.

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

None

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol IGT. The following table presents the high and low prices of our common stock as traded on the NYSE and quarterly cash dividends declared for the last two fiscal years.

	Stock Price High	Stock Price Low	Dividends Declared
Fiscal 2007			
First Quarter	\$46.76	\$40.49	\$0.130
Second Quarter	48.79	37.89	0.130
Third Quarter	42.00	36.80	0.130
Fourth Quarter	43.34	33.57	0.140
Fiscal 2006			
First Quarter	\$31.29	\$25.44	\$0.125
Second Quarter	37.18	30.12	0.125
Third Quarter	39.39	34.71	0.125
Fourth Quarter	42.34	35.48	0.130

There were approximately 2,900 record holders of IGT's common stock and the closing price was \$41.13 as of November 26, 2007.

IGT's transfer agent and registrar is: Wells Fargo Shareowner Services
 Manager of Account Administration
 161 North Concord Exchange
 South St. Paul, MN 55075-1139
 (800) 689-8788

Share Repurchases

The purpose of our 1990 common stock repurchase authorization, as amended, is to return value to our shareholders and reduce the number of shares outstanding. We may repurchase shares in the open market, in privately negotiated transactions, or under Rule 10b5-1 trading plans, depending on market conditions and other factors. The authorization does not specify an expiration date.

Our fourth quarter repurchases and remaining authorization are summarized below. Shares purchased exclude treasury shares acquired in non-cash transactions related to forfeited stock awards, shares exchanged for options exercised, and shares withheld to satisfy employee tax obligations. We repurchased 2.3 million additional shares between September 30, 2007 and November 26, 2007.

Periods	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as part of a Publicly Announced Plan	Maximum Number of Shares Still Available for Purchase Under the Plan
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(In millions, except per share amounts)

July 1 - July 28, 2007	2.7	\$ 36.77	2.7	44.0
July 29 - August 25, 2007	5.6	34.89	5.6	38.4
August 26 - September 29, 2007	5.2	40.62	5.2	33.2
Total	13.5	\$ 37.47	13.5	

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The following graph reflects the cumulative total return (change in stock price plus reinvested dividends) of a \$100 investment in our common stock for the five-year period for our fiscal years ended September 30, 2002 through 2007 in comparison to the Standard and Poor's 500 Composite Index and our peer group. Our peer group consists of Bally Technologies, Inc., Progressive Gaming International Corporation, Scientific Games Corp., Shuffle Master, Inc. and WMS Industries, Inc. The comparisons are not intended to forecast or be indicative of possible future performance of our common stock.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among International Game Technology, The S&P 500 Index and A Peer Group

	2002	2003	2004	2005	2006	2007
International Game Technology	\$ 100.00	\$ 163.89	\$ 210.99	\$ 160.97	\$ 251.38	\$ 264.37
S&P 500	100.00	124.40	141.65	159.01	176.17	205.13
Peer Group	100.00	149.13	189.47	239.34	254.54	321.79

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The following should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data.

FINANCIAL HIGHLIGHTS

As of and for Years ended September 30,	2007	2006	2005	2004	2003
<i>(In millions, except per share amounts)</i>					
Revenues	\$2,621.4	\$2,511.7	\$2,379.4	\$ 2,484.7	\$2,128.1
Gross profit	1,480.8	1,371.7	1,190.7	1,319.2	1,094.8
Operating income	800.3	725.1	663.7	814.3	665.9
Income from continuing operations, net of tax (1)	508.2	473.6	436.5	429.8	375.3
Discontinued operations, net of tax (2)				58.9	15.4
Net income (1, 2)	508.2	473.6	436.5	488.7	390.7
Basic earnings per share (1)					
Continuing operations	\$ 1.54	\$ 1.41	\$ 1.27	\$ 1.24	\$ 1.09
Discontinued operations (2)				0.17	0.05
Net income	1.54	1.41	1.27	1.41	1.14
Diluted earnings per share (1)					
Continuing operations	\$ 1.51	\$ 1.34	\$ 1.20	\$ 1.17	\$ 1.04
Discontinued operations (2)				0.15	0.04
Net income	1.51	1.34	1.20	1.32	1.08
Weighted average shares outstanding					
Basic	330.1	336.8	343.7	346.8	344.0
Diluted	336.1	355.8	370.2	376.3	366.7
Cash dividends declared per share	\$ 0.530	\$ 0.505	\$ 0.485	\$ 0.420	\$ 0.175
Cash from operations	\$ 821.5	\$ 624.1	\$ 726.4	\$ 623.6	\$ 408.7
Cash from investing	(296.7)	(234.0)	(215.8)	364.8	(597.5)
Cash from financing (3)	(556.5)	(386.9)	(525.6)	(1,121.7)	420.7
Capital expenditures (4)	344.3	310.5	238.6	210.9	128.6
Cash used for share repurchases	1,118.3	426.7	354.7	129.8	161.3
Cash and investment securities (3, 6)	\$ 400.7	\$ 589.1	\$ 688.1	\$ 766.7	\$1,315.6
Working capital (7)	595.5	129.1	219.6	949.7	1,133.1
Total assets	4,167.5	3,902.7	3,864.4	3,873.0	4,185.2
Notes payable, net (current and non-current) (3)	1,508.6	832.4	811.0	791.9	1,552.9
Jackpot liabilities (current and non-current) (5)	643.1	546.7	705.8	719.3	541.1
Non-current liabilities	2,023.3	614.1	741.1	1,336.4	1,552.7
Stockholders' equity	1,452.7	2,042.0	1,905.7	1,976.6	1,687.5

(1)

*Fiscal 2004
includes
\$127.9 million
pretax
(\$81.4 million
after tax or \$0.22
per diluted share)
for losses on early
debt redemption.*

- (2) *Certain
discontinued
Anchor
operations were
reclassified and
sold subsequent
to acquisition.
Fiscal 2004
includes related
gain on sale of
\$56.7 million
after tax.*
- (3) *Fiscal 2004
includes
\$969.6 million of
principal debt
reduction. Fiscal
2003 includes
proceeds of
\$575.0 million
from debentures
issued.*
- (4) *Capital spending
increases relate
to additional
investments in
gaming
operations
equipment, as
well as spending
for our new Las
Vegas campus
construction and
Reno facilities
expansion in
fiscal 2005, 2006
and 2007.*

(5)

Jackpot liabilities increased in fiscal 2007 and 2004 due to VIE consolidations and decreased in fiscal 2006 due to VIE deconsolidations.

(6) *Cash and investment securities include restricted amounts.*

(7) *Fiscal 2006 includes \$611.1 million of convertible debentures classified in current liabilities because our common stock met the conversion price threshold. Fiscal 2005 includes \$602.2 million of debentures classified as current due to holders redemption rights.*

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

The following MDA is intended to enhance the reader's understanding of our company operations and current business environment. MDA is provided as a supplement to and should be read in conjunction with our Item 1, Business, and Item 8, Financial Statements and Supplementary Data.

International Game Technology is a global company specializing in the design, manufacture, and marketing of computerized gaming equipment, network systems, licensing and services. We are a leading supplier of gaming products to the world, providing a well-diversified offering of quality products and services at competitive prices that are designed to increase the potential for operator profits by serving players better.

In fiscal 2007 we achieved the highest annual revenues in company history at \$2.6 billion, largely attributable to growth in our gaming operations installed base reaching a record 59,200 machines in service at September 30, 2007. We operate in two segments, North America and International, with certain unallocated company-wide income and expenses managed at the corporate level. International operations continue to be a growing contributor with operating income up 44% in fiscal 2007. See the BUSINESS SEGMENT RESULTS below and Note 18 of our Consolidated Financial Statements for additional segment information and financial results.

We are dedicated to generating financial growth by continuing to focus on the three cornerstones of our success: product development, market development and capital deployment. We invest more in product development than any of our principal competitors and believe this helps us deliver the broadest gaming product lines across the most markets. Our current development efforts reflect our forward thinking and will support the near term evolution of the gaming floor. This includes the expansion of our business model beyond machine sales toward a more systems-centric, networked gaming environment. Our new World Game Platform initiative, started in fiscal 2007, will unify and standardize our development efforts worldwide. We believe our *sbä* applications will be commercially available beginning in 2009 and will further differentiate IGT gaming products by offering operators new ways to engage and interact with players, as well as the ability to market cross-functional products and player conveniences. We are dependent, in part, on new market opportunities to generate growth. Some of these opportunities may come from political action as governments look to gaming to provide tax revenues in support of public programs and view gaming as a key driver for tourism. We continue to expand our footprint globally, especially in emerging markets in Asia and Latin America. Our ongoing initiatives to enhance growth in new areas of gaming include financing customer construction or expansion. In April 2007 we agreed to provide \$80.0 million in development financing and \$40.0 million in equipment financing over the next five years to gaming operators in Argentina.

We are able to return value to our shareholders and reinvest in our business because of our ability to generate substantial operating cash flows, the highest ever in fiscal 2007 at \$821.5 million. During fiscal 2007 we returned \$1.3 billion to our shareholders through dividends and share repurchases. We consider strategic business combinations, investments, and alliances to expand our geographic reach, product lines and customer base. During fiscal 2007, we invested \$105.6 million in China LotSynergy Holdings, Ltd. (CLS) for developing opportunities in the China lottery, \$31.2 million in electronic table games with Digideal and \$21.9 million in VCAT for the Mariposa CRM software. See Notes 2 and 5 of our Consolidated Financial Statements for additional information about these investments.

While domestic replacement sales are expected to remain at historically low levels in the upcoming year, we anticipate benefiting from growth in new or expanding domestic markets beginning in the second half of fiscal 2008. We also anticipate revenues will be driven by our growing gaming operations installed base, network systems sales, and machine sales as casino operators begin to upgrade platforms to capitalize on networked functionality and new features. We also expect to benefit from further gaming expansion outside of North America and new content distribution channels enabled by network systems and table gaming initiatives. We will continue server-based gaming development, working with our competitors and customers to ensure the future is powered by an open network that enables products from multiple suppliers to work together without the need for additional programming or interfaces.

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RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2007, the Financial Accounting Standards Board (FASB) proposed FASB Staff Position (FSP) APB 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. If approved, FSP APB 14-a will require IGT, as an issuer of convertible debt that may be wholly or partially settled in cash, to separately account for the liability and equity components of the convertible debt instrument and recognize additional interest expense at our nonconvertible debt borrowing rate. If the FSP is issued as drafted, it will be effective for IGT's fiscal 2009 and will require retrospective application. We are currently evaluating the proposed FSP and it may result in higher interest expense related to our Debentures for all periods presented.

We adopted Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment*, in fiscal 2006 and recognized share-based compensation in our financial statements. See CONSOLIDATED OPERATING RESULTS below for a discussion of the impact to operating results in fiscal 2006, as well as Notes 1 and 4 of our Consolidated Financial Statements for additional information regarding our share-based compensation.

See Note 1 of our Consolidated Financial Statements for information regarding recently issued accounting standards that may impact IGT upon adoption.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements were prepared in conformity with accounting principles generally accepted in the US. Accordingly, we are required to make estimates incorporating judgments and assumptions we believe are reasonable based on our historical experience, contract terms, observance of known trends in our company and the industry as a whole, as well as information available from other outside sources. Our estimates affect amounts recorded in the financial statements and actual results may differ from initial estimates.

We consider the following accounting estimates to be the most critical to fully understanding and evaluating our reported financial results. They require us to make subjective or complex judgments about matters that are inherently uncertain or variable. Senior management discussed the development, selection and disclosure of the following accounting estimates, considered most sensitive to changes from external factors, with the Audit Committee of our Board of Directors.

Goodwill, Other Intangible Assets, and Royalties

We measure and test goodwill for impairment using the two-step approach under SFAS 142, *Goodwill and Other Intangible Assets*, at least annually or more often if there are indicators of impairment. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. Our goodwill totaled \$1.1 billion at September 30, 2007 and September 30, 2006. The last three annual goodwill impairment tests indicate the fair value of each reporting unit is substantially in excess of its carrying value.

In determining the fair value of our reporting units, we apply the income approach using the discounted cash flow (DCF) method. We then compare the implied valuation multiples of a group of comparable competitor gaming companies under the market approach to test the reasonableness of our DCF results. The DCF analysis is based on the present value of two components: the sum of our five year projected cash flows and a terminal value assuming a long-term growth rate. The cash flow estimates are prepared based on our business plans for each reporting unit, considering historical results and anticipated future performance based on our expectations regarding product introductions and market opportunities. The discount rates used to determine the present value of future cash flows are derived from the weighted average cost of capital of a set of comparable gaming companies, considering the size and specific risks of each reporting unit.

Our portfolio of other intangibles substantially consists of finite-lived patents, contracts, trademarks, developed technology, and customer relationships. We regularly monitor events or changes in circumstances that indicate the carrying value of these intangibles may not be recoverable or require a revision to the estimated remaining useful life in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Our other intangibles totaled \$245.5 million at September 30, 2007 and \$257.0 million at September 30, 2006.

If an event or change occurs, we estimate cash flows directly associated with the use of the intangible to test recoverability and remaining useful lives based on the forecasted utilization of the asset and expected product revenues. In developing estimated cash flows, we incorporate assumptions regarding changes in legal factors, related industry climate, regulatory actions, contractual factors, operational performance and the company's strategic business

plans, as well as the effects of obsolescence, demand, competition, and other market

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conditions. When the carrying amount exceeds the undiscounted cash flows expected to result from the use and eventual disposition of a finite-lived intangible asset or asset group, we then compare the carrying amount to its current fair value. We estimate the fair value using prices for similar assets, if available, or more typically using a DCF model. We recognize an impairment loss if the carrying amount is not recoverable and exceeds its fair value. We also regularly evaluate the estimated future benefit of prepaid and deferred royalties to determine amounts unlikely to be realized from forecasted sales or placements of our games. The carrying value of our prepaid and deferred royalties totaled \$104.6 million at September 30, 2007 and \$136.5 million at September 30, 2006. Impairment testing for goodwill, other intangibles, and royalties requires judgment, including the identification of reporting units, allocation of related goodwill, assignment of corporate shared assets and liabilities to reporting units, estimated cash flows, and determinations of fair value. While we believe our estimates of future revenues and cash flows are reasonable, different assumptions could materially affect the assessment of useful lives, recoverability and fair value. If actual cash flows fall below initial forecasts, we may need to record additional amortization and/or impairment charges.

Jackpot Liabilities and Expenses

Only a portion of our recurring revenue arrangements incorporate an IGT paid WAP jackpot for which we recognize corresponding jackpot liabilities and expense. Changes in our estimated amounts for jackpot liabilities and associated jackpot expense are attributable to regular analysis and evaluation of the following factors:

- ^a variations in slot play (i.e. jackpot life cycles and slot play patterns)
- ^a volume (i.e. number of WAP units in service and coin-in per unit)
- ^a interest rate movements
- ^a the size of base jackpots (i.e. initial amount of the progressive jackpots displayed to players)

Interest rates applicable to jackpot funding vary by jurisdiction and are impacted by market forces, as well as winner elections to receive a lump sum payment in lieu of periodic annual payments. Current and non-current portions of jackpot liabilities, as well as jackpot expense, may also be impacted by changes in our estimates and assumptions regarding the expected number of future winners who may elect a lump sum payout.

Our jackpot liabilities increased to \$643.1 million at September 30, 2007 compared to \$546.7 million at September 30, 2006 primarily due to trust reconsolidations (see Note 2 of our Consolidated Financial Statements for additional information about the trusts). Jackpot expense totaled \$164.7 million for fiscal 2007, \$184.9 million for fiscal 2006 and \$258.5 million in fiscal 2005. Fluctuations in fiscal 2007 and 2006 resulted from variations in slot play, fewer WAP units in service and interest rate movements. Additionally, jackpot expense declined significantly during fiscal 2006 due the implementation of lower base jackpot systems as discussed in BUSINESS SEGMENT RES