

NORDSTROM INC
Form DEF 14A
April 08, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §.240.14a-12

NORDSTROM, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

1617 Sixth Avenue, Seattle, Washington 98101-1707

April 8, 2016

Dear Shareholder,

We are pleased to invite you to join the Nordstrom Board of Directors and leadership team at the 2016 Annual Meeting of Shareholders in our hometown of Seattle. The meeting will take place on Thursday, May 19, 2016 at 9:00 a.m. Pacific Daylight Time in the John W. Nordstrom Room at 1617 Sixth Avenue, 5th floor, in the downtown Seattle Nordstrom. If you are unable to be with us in person, please join the meeting live online at *investor.nordstrom.com*.

We strive to continually improve the level of service we offer across each of our businesses. This approach has guided us well over the years and 2015 was no exception despite a challenging retail environment in the second half of the year. The rapid pace of change, which is accelerating even faster than just a year ago, requires us to build on our culture of service each day. Customers have more options at their fingertips than ever before and it is incumbent upon us to remain focused on improving how we serve customers across each business to support a seamless experience.

Since 1901, Nordstrom's practices and policies have been shaped by ethical standards, rigorous corporate governance practices and a commitment to financial integrity. We take a long-term view of our business and these principles are reinforced throughout the business as well as by our Board of Directors. This year we continue our efforts to present the information in this Proxy Statement in a clear and readable manner reflective of our ongoing commitment to improve transparency and to earn your continued support as a shareholder.

In addition to this Proxy Statement, we encourage you to view our online Company Review at *investor.nordstrom.com* and read our 2015 Annual Report. There you will find a more complete picture of our performance and how we are working to increase shareholder value by improving the customer experience.

As a shareholder, one of your key rights is voting the shares you own in Nordstrom. No matter the size of your shareholding, each vote is important and helps us better understand what is important to our shareholders. You can cast your vote online, by telephone, or by using a printed proxy card as outlined in this document.

Thank you on behalf of all of us at Nordstrom for your continued support and ownership of the Company.

Sincerely,

Enrique Hernandez, Jr. Blake W. Nordstrom
Chairman of the Board Co-President

Peter E. Nordstrom Erik B. Nordstrom
Co-President Co-President

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1617 Sixth Avenue, Seattle, Washington 98101-1707

Notice of Annual Meeting of Shareholders

Thursday, May 19, 2016

9:00 a.m. Pacific Daylight Time

John W. Nordstrom Room, Downtown Seattle Nordstrom, 1617 Sixth Avenue, 5th Floor, Seattle, WA 98101

The 2016 Annual Meeting of Shareholders (the “Annual Meeting”) of Nordstrom, Inc. (the “Company”) will be held for the following purposes:

1. To elect 12 Directors identified in the accompanying Proxy Statement to serve until the 2017 Annual Meeting of Shareholders;
2. To ratify the appointment of Deloitte & Touche LLP (“Deloitte”) as the Company’s Independent Registered Public Accounting Firm to serve for the 2016 fiscal year;
3. To conduct an advisory vote regarding the compensation of our Named Executive Officers;
4. To approve the Amended and Restated Nordstrom, Inc. Executive Management Bonus Plan; and
5. To transact any other business that may properly come before the Annual Meeting and any adjournment or postponement thereof.

You are eligible to vote if you were a shareholder of record at the close of business on March 11, 2016 (the “record date”). There were 172,920,293 shares of Common Stock issued and outstanding as of March 11, 2016.

Shareholders are invited to attend the Annual Meeting in person. Those who are hearing impaired or require other assistance should contact the Company at 206-303-3033 so that we may facilitate your participation at the Annual Meeting.

YOUR VOTE IS VERY IMPORTANT. Whether or not you intend to be present at the Annual Meeting, you are encouraged to vote.

Seattle, Washington
April 8, 2016

By order of the Board of Directors,

Robert B. Sari
Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2016 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 19, 2016

The accompanying Proxy Statement and the 2015 Annual Report on Form 10-K are available at *investor.nordstrom.com*

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PROXY SUMMARY

This summary highlights information described in more detail elsewhere in this Proxy Statement. It does not contain all of the information you should consider, and you should read the entire Proxy Statement carefully before voting. Page references are provided to help you find further information.

2016 Annual Meeting of Shareholders

Date and Time:	May 19, 2016 9:00 a.m. Pacific Daylight Time	Meeting Webcast:	
Place:	John W. Nordstrom Room Downtown Seattle Nordstrom 1617 Sixth Avenue, 5 th Floor Seattle, WA 98101-1707		<i>investor.nordstrom.com</i> , select Webcasts and Presentations and follow the instructions given. The webcast will be archived and available for one year following the Annual Meeting.

Eligibility to Vote

You can vote if you were a shareholder of record at the close of business on March 11, 2016.

How to Cast Your Vote (page 66)

You can vote by any of the following methods:

Internet (*www.proxyvote.com*), until 11:59 p.m. Eastern Daylight Time on May 18, 2016;

Telephone, if you requested printed materials, by using the toll-free number listed on your proxy card until 11:59 p.m. Eastern Daylight Time on May 18, 2016;

Mail, by completing, signing and returning your proxy or voting instruction card on or before May 18, 2016; or

In person, if you are a shareholder of record, by voting your shares at the Annual Meeting. If your shares are held in the name of a broker, nominee or other intermediary, you must obtain a proxy, executed in your favor, to bring to the meeting.

Voting Matters (page 65)

	Board Vote Recommendation	Page Reference (for more detail)
1. Election of Directors	FOR each Director Nominee	19
2. Ratification of the Appointment of Independent Registered Public Accounting Firm	FOR	24
3. Advisory Vote Regarding Executive Compensation: Say-On-Pay	FOR	56
4. Approval of the Amended and Restated Nordstrom, Inc. Executive Management Bonus Plan	FOR	57

Board of Directors Nominees (page 20)

Name	Age	Director Since	Occupation	Committee Memberships	Other Public Company Boards
Shellye L. Archambeau*	53	2015	Chief Executive Officer of MetricStream, Inc.	Audit, Technology	Verizon, Inc.
Tanya L. Domier*	50	2015	Chief Executive Officer of Advantage Solutions	Audit, Compensation	
Enrique Hernandez, Jr.*	60	1997	President and Chief Executive Officer of Inter-Con Security Systems, Inc.	Compensation, Corporate Governance and Nominating	McDonald's Corporation, Wells Fargo & Company, Chevron Corporation
Blake W. Nordstrom	55	2005	Co-President of Nordstrom, Inc.	N/A	
Erik B. Nordstrom	52	2006	Co-President of Nordstrom, Inc.	N/A	
Peter E. Nordstrom	54	2006	Co-President of Nordstrom, Inc.	N/A	
Philip G. Satre*	66	2006	Retired Chairman and Chief Executive Officer of Harrah's Entertainment, Inc.	Corporate Governance and Nominating (Chair), Finance	International Game Technology, PLC
Brad D. Smith*	52	2013	President and Chief Executive Officer of Intuit, Inc.	Audit (Chair), Technology	Intuit, Inc.
Gordon A. Smith*	57	2015	Chief Executive Officer, Consumer and Community Banking of JPMorgan Chase & Co.	Compensation, Corporate Governance and Nominating	Choice Hotels International
Bradley D. Tilden*	55	2016	Chairman and Chief Executive Officer of Alaska Air Group, Inc.	Audit, Finance	Alaska Air Group, Inc.
B. Kevin Turner*	51	2010	Chief Operating Officer of Microsoft Corporation	Finance, Technology (Chair)	

Robert D.
Walter*

70 2008

Founder and Retired Chairman
and Chief Executive Officer of
Cardinal Health, Inc.

Compensation (Chair),
Corporate Governance
and Nominating

American Express
Company, YUM! Brands,
Inc.

**Independent Director*

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Governance of the Company (page 11)

- 13 of 16 Directors and 9 of 12 Director nominees are independent.
- Independent Directors meet regularly in executive session.
- The roles of Co-Presidents and Chairman of the Board are separate.
- Only independent Directors are Committee members.
- Director elections have a majority voting standard, and all Directors are elected annually.
- The Board has stock ownership guidelines for Directors and Executive Officers.
- Board, Committee and Director performance evaluations are conducted annually.
- The Board and its Committees are responsible for risk oversight.
- Co-President and management succession planning is one of the Board's highest priorities.

Business Highlights

In 2015, we continued to grow our business despite a more challenging retail environment in the second half of the year. We added nearly \$1B to our top-line, delivering total net sales growth of 7.5% and a comparable sales increase of 2.7%.

Achieved a new record for total net sales at over \$14B, a 7.5% increase over our previous high last year.

Generated earnings of \$600M reflecting a challenging retail environment and ongoing investments to drive growth.

Delivered a 2.7% increase in comparable sales, with Nordstrom.com achieving 15% growth.

During the year, we achieved the following milestones in executing our customer strategy:

- Opened our first international flagship store in Vancouver, British Columbia, the most successful opening in our Company history.
- Grew Nordstromrack.com/HauteLook by 47%, reaching over \$500M in sales.
- Expanded our fulfillment network with our third fulfillment center in Elizabethtown, Pennsylvania, located within two-day delivery of approximately half the U.S. population.
- Initiated a strategic partnership with TD Bank on October 1, 2015, which included the sale of a substantial majority of our U.S. Visa and private label credit card receivables to TD.

Returned \$2.4B to shareholders through share repurchase and dividends, of which \$1.8B resulted from the sale of our credit card receivables.

Added over \$400M to our top-line growth from our investments in HauteLook, Canada and Trunk Club.

Opened five Nordstrom full-line stores, including two in Canada, and 27 Nordstrom Rack stores.

Increased the number of new and total customers.

These milestones are the outcome of our strategy to serve customers on their terms and to deliver the Nordstrom experience they expect. Several years ago, we began to accelerate growth in multiple channels to evolve the customer experience that merges the richness of stores with the convenience of online. We look forward to the opportunities ahead as we continue our goal of providing a best-in-class customer experience through service, product and capabilities across all channels at Nordstrom. For more information, please see our Annual Report on Form 10-K or visit our online Company Review at investor.nordstrom.com under 2015 Company Review.

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Executive Compensation Highlights - Paying For Performance

In accordance with our pay-for-performance philosophy, the compensation program for our Named Executive Officers is straightforward in design and includes four primary elements: base salary, performance-based bonus, long-term incentives and benefits. Within these elements, we emphasize variable pay over fixed pay, with approximately 80% of our Named Executive Officers' combined target compensation linked to our financial or market results (excluding one-time payments such as new-hire grants or relocation). The program also balances the importance of these executives achieving both critical short-term objectives and strategic long-term priorities.

Our Variable Pay Reflects Company Performance

Under our pay-for-performance design, payouts to the Named Executive Officers in fiscal year 2015 were closely aligned with results for their variable pay components:

Performance-based bonuses did not pay out. While our Incentive Return on Invested Capital ("ROIC") achievement of 11.0% exceeded the established threshold of 10.5%, our Incentive Earnings Before Interest and Income Taxes ("EBIT") achievement of \$1,246M fell below the established threshold of \$1,269M. See page 33 and Appendix B to learn more about the performance-based bonus pay element including Incentive ROIC and Incentive EBIT results for 2015.

Performance share units granted under the long-term incentive plan paid out at 75% as our Total Shareholder Return ("TSR") was positive and outpaced more than half of our retail peers over the 2013-2015 fiscal year performance cycle, surpassing the minimum threshold of greater than 50th percentile rank. See page 34 to learn more about the long-term incentive pay element and results for 2015.

Payouts for these variable compensation elements in prior years have been closely aligned with Company results as well. The following graphs show the average performance-based payouts to our Co-Presidents relative to Incentive EBIT and TSR ranking for fiscal year 2015 and the four prior years. This pattern of pay for performance is consistent for the other Named Executive Officers during these periods.

Annual EBIT results are used to determine performance-based bonus payouts and, as in 2015, may reflect related adjustments under the Executive Management Bonus Plan. See page 33 and Appendix B to learn more about the performance-based bonus pay element including Incentive ROIC and Incentive EBIT results for 2015.

3-Year TSR Ranking is based on our TSR results for the performance period, relative to our peers. See page 34 to learn more about long-term incentive pay.

The Compensation Committee reviews these results and other analyses to ensure the Named Executive Officers' aggregate compensation aligns with shareholder interests. Based on these and other outcomes, the Compensation Committee believes that total direct compensation for our Named Executive Officers reflects our pay-for-performance objective and is well-aligned with shareholder interests.

For more information on executive compensation, please see the Compensation Discussion and Analysis starting on page 27.

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CORPORATE GOVERNANCE

Our Corporate Governance Framework

Since its founding, our Company's leaders and employees have always sought to maintain the highest ethical standards in every aspect of our business. Our corporate governance framework is designed to support this tradition of integrity, trust and unyielding commitment to do the right thing, which has served our customers and shareholders well over the years. Our corporate governance framework, more fully discussed on the following pages, includes the following highlights:

Board Responsibilities, Leadership Structure and Role in Risk Oversight

The Board of Directors ("Board") oversees, counsels and directs management in the long-term interests of the Company and our shareholders. The Board's responsibilities include:

- selecting and evaluating the performance of the Co-Presidents;
- planning for succession with respect to the positions of the Co-Presidents and monitoring management's succession planning for other senior executives;
- reviewing and approving our major financial objectives, our strategic and operational plans and other significant actions;
- monitoring the conduct of our business and the assessment of our business risks to evaluate whether the business is being properly managed; and
- overseeing the processes for maintaining our integrity with regard to our financial statements and other public disclosures, and compliance with laws and our ethics.

At this time, the Board believes that different people should hold the positions of Chairman of the Board and Co-Presidents, as this may strengthen corporate governance and aid in the Board's oversight of management. Currently, Enrique Hernandez, Jr. serves as Chairman of the Board and Blake Nordstrom, Erik Nordstrom and Peter Nordstrom serve as Co-Presidents. The Co-Presidents are responsible for day-to-day leadership and performance of the Company, while the Chairman of the Board provides guidance to the Co-Presidents and presides over the full Board. The duties of our Chairman of the Board are more fully described in the Chairman of the Board and Presiding Director section on page 12. The Board believes that this leadership structure also aids in the Board's oversight and

management of risk.

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The full Board has primary responsibility for oversight of risk management, and has assigned to the Board's standing Committees the specific focus of the risks inherent in their respective areas of oversight. The full Board:

- considers and reviews the Company's risk appetite, which is the amount of risk the organization is willing and able to accept;
- oversees management's implementation of an appropriate system to manage risks (i.e., to identify, assess, mitigate, monitor, and communicate these risks) and monitors the effectiveness of this process as the business environment changes;
- provides risk oversight through the Board's committee structure and processes; and
- manages directly certain risks, in particular, the risks associated with the Company's strategic direction, which are reviewed at an annual strategy planning meeting and periodically throughout the year.

The Company has a comprehensive, structured approach to managing risks, which are identified, assessed, prioritized and managed at all levels within the Company through an enterprise risk management process which is aligned with the Company's strategy. Within this framework, management is responsible for assessing and managing the Company's exposure to risks. Management regularly reports on risks to the relevant Committee or the Board. The Board and its Committees discuss the various risks confronting the Company throughout the year, particularly when reviewing operating and strategic plans and when considering specific actions for approval. The risks are classified into four major categories: Strategic, Compliance, Operational and Financial, and mapped for the appropriate management and Board (and Committee) oversight.

Through the risk oversight process, the Board: (i) obtains an understanding of the risks inherent in the Company's strategy and management's execution of the strategy within the agreed risk appetite; (ii) accesses useful information from internal and external sources about the critical assumptions underlying the strategy; (iii) is alert for possible dysfunctional behavior within the organization which might lead to excessive risk taking; (iv) provides input to executive management regarding critical risk issues on a timely basis; and (v) encourages open communication and appropriate escalation of reporting of risk throughout the enterprise, striving to ensure that risk management is part of the corporate culture. The Board's leadership structure and the collective knowledge and experience of its members promotes a broad perspective, open dialogue and useful insights regarding risk, thereby increasing the effectiveness of the Board's role in risk oversight.

Director Independence

A Director is considered independent when our Board affirmatively determines that he or she has no material relationship with the Company, other than as a Director. Our Board makes this determination in accordance with the standards set forth in our Corporate Governance Guidelines, which are consistent with the listing standards of the New York Stock Exchange ("NYSE") and Securities and Exchange Commission ("SEC") rules. In making this determination, the Board considers existing relationships between the Company and Director, whether directly or as a partner,

shareholder or officer of an organization that has a relationship with the Company. The Board has affirmatively determined that the following Director nominees are independent within the meaning of the listing standards of the NYSE, SEC rules and the Company's Corporate Governance Guidelines, and that none of these Director nominees have a material relationship with the Company other than as a Director:

Shellye L. Archambeau Philip G. Satre Bradley D. Tilden
Tanya L. Domier Brad D. Smith B. Kevin Turner
Enrique Hernandez, Jr. Gordon A. Smith Robert D. Walter

Chairman of the Board and Presiding Director

The Company has a Chairman of the Board who is also an independent Director and who serves as the Presiding Director within the meaning of the listing standards of the NYSE. Currently, Enrique Hernandez, Jr. serves as the Company's Chairman of the Board.

The Chairman of the Board is appointed annually by the Board. As described in the Company's Bylaws, Corporate Governance Guidelines and Charter of the Corporate Governance and Nominating Committee, the Chairman of the Board:

- presides at meetings of the Board;
- assists in establishing the agenda for each Board and Board Committee meeting;
- serves as the Presiding Director to lead regular executive sessions of the Board in which only independent Directors participate;
- calls special meetings of the Board and/or the shareholders;
- provides input and support to the Chair of the Corporate Governance and Nominating Committee on nominees to fill vacant Board seats and the selection of Committee Chairs and membership on Board Committees;
- advises the Co-Presidents and other members of the Executive Team on such matters as strategic direction, corporate governance and overall risk assessment; and
- performs other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities.

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Director Elections

The Company's Bylaws provide that, in an uncontested election, a Director nominee will be elected if the number of votes cast for the nominee's election exceeds the number of votes cast against the nominee's election. An incumbent Director nominee who fails to receive the requisite votes for election will continue to serve as a Director until the earlier of: (i) 90 days from the date on which the voting results of the election are determined; or (ii) the date on which an individual is selected by the Board to fill the position held by such Director. In any election which is a contested election (meaning that the number of director nominees exceeds the number of directors to be elected), the standard for election of directors is a plurality of the votes cast by holders of shares entitled to vote in the election at a meeting.

Management Succession Planning

The Board and management believe that one of their primary responsibilities is to ensure that the Company has the appropriate leadership capability to effectively deliver upon its business commitments. The Company's management is actively engaged and involved in leadership development, having regular discussions of the leadership capabilities of the organization and the attraction, development and retention of critical talent to promote future success. In addition to the Company's regular review of leadership capabilities, the Board annually conducts a detailed review of the talent strategies for the entire organization and reviews succession plans for senior leadership positions, including those of the Co-Presidents. The Board reviews high-potential employees, evaluates plans to develop their management and leadership capabilities and sanctions the strategies used to deploy these individuals most effectively. In addition to the annual review, succession is regularly discussed in executive sessions of the Board and in Board Committee meetings, as applicable. Directors become familiar with potential successors for key leadership positions through various means, including the comprehensive annual talent and succession review, Board meeting presentations and less formal interactions throughout the course of the year.

Our entire Board, with the oversight of our Corporate Governance and Nominating Committee, is responsible for implementing succession procedures for the Co-Presidents. We believe that the Board, led by our Chairman, should collaborate with the Co-Presidents on the critical aspects of the succession planning process, including establishing selection criteria, identifying and evaluating candidates and making management succession decisions. The Board has procedures in place to respond to an unexpected vacancy in one or more of the Co-Presidents' positions, including a detailed review of the succession plan annually by the Corporate Governance and Nominating Committee. It is the Board's practice to be prepared for a planned or unplanned change in leadership in order to ensure the stability of the Company.

Communications with Directors

Shareholders and other interested parties may communicate with Directors by contacting the Corporate Secretary's Office at:

Telephone: 206-303-2542

Internet: *board@nordstrom.com*

Mail: Nordstrom, Inc.
1700 Seventh Avenue
Seattle, Washington 98101-4407
Attn. Corporate Secretary

The Corporate Secretary will relay the question or message to the specific Director with whom the shareholder or interested party wishes to communicate.

If no specific Director is requested, the Corporate Secretary will relay the question or message to the Chairman of the Board. Certain items that are unrelated to the duties and responsibilities of the Board, such as business solicitations, advertisements, junk mail and other mass mailings will not be relayed to Directors.

The Audit Committee has established procedures to respond to possible concerns about ethics and accounting-related practices. To report your concerns, you may use the Company's confidential Whistleblower Hotline at:

Telephone: 1-888-832-8358

Internet: *ethicspoint.com*

Your concerns will be investigated and communicated to the Audit Committee, as necessary.

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The Board has a standing Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, Finance Committee and Technology Committee. Each Committee has a Board-approved Charter which is reviewed annually by the respective Committee. Recommended changes, if any, are submitted to the Corporate Governance and Nominating Committee and the Board for approval. The Board makes Committee and Committee Chair assignments annually at its meeting immediately following the Annual Meeting, although further changes to Committee assignments may be made from time to time as deemed appropriate by the Board. The Board has determined that the Chairs and all Committee members are independent under the applicable NYSE rules. Committee Charters and current Committee membership are posted on our website at investor.nordstrom.com and may be viewed by selecting Corporate Governance. The Chairs and members of the Committees as of the date of this Proxy Statement are identified in the following table.

Director	Audit Committee	Compensation Committee	Corporate Governance and Nominating Committee	Finance Committee	Technology Committee
Shellye L. Archambeau					
Phyllis J. Campbell					
Tanya L. Domier					
Michelle M. Ebanks					
Enrique Hernandez, Jr.					
Robert G. Miller					
Philip G. Satre					
Brad D. Smith					
Gordon A. Smith					
Bradley D. Tilden					
B. Kevin Turner					
Robert D. Walter					
Alison A. Winter					
<i>Chair</i>					

Audit Committee

As more fully described in its Charter, which is provided in Appendix C, the primary responsibility of the Audit Committee is to assist the Board in fulfilling its oversight responsibility by reviewing and discussing:

- the integrity of the Company's financial statements;
- the accounting, auditing and financial reporting processes of the Company;
- the management of business and financial risk and the internal controls environment;

- the Company's compliance with legal and regulatory requirements and ethics programs as established by management
- and the Board, in conjunction with any recommendations by the Corporate Governance and Nominating Committee with respect to corporate governance standards;
- the reports resulting from the performance of audits by the independent auditor and the internal audit team;
- the qualifications, independence and performance of the Company's independent auditors; and
- the performance of the Company's internal audit team.

The Audit Committee meets regularly with the independent registered public accounting firm and management, including the Vice President – Internal Audit, to review accounting, auditing and financial reporting processes, enterprise risk management, and compliance with laws and regulations. The Audit Committee also meets privately and separately with the independent registered public accounting firm, the Executive Vice President and Chief Financial Officer and the Vice President – Internal Audit.

In addition to meeting the independence requirement for audit committee members, each current member of the Audit Committee also meets the financial literacy and experience requirements contained in the corporate governance listing standards of the NYSE. The Board has determined that all Audit Committee members qualify as “audit committee financial experts” under the regulations of the SEC. Although all members of the Audit Committee meet the current regulatory requirements for accounting or related financial management expertise and the Board has determined that each of them qualifies as an “audit committee financial expert,” members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not technical experts in auditing or accounting.

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Compensation Committee

As more fully described in its Charter, the primary responsibilities of the Compensation Committee are to:

- approve an overall compensation philosophy for the Company's Executive Officers in light of the Company's goals and objectives. The Executive Officers are referenced on pages 25 and 26 and include the Named Executive Officers shown in the Compensation Discussion and Analysis on page 27 and other business unit presidents and Company executives over major organizational functions reporting to the Co-Presidents or other senior executives;
- select performance measures aligned with the Company's business strategy;
- review and approve the Company's cash and equity-based compensation plans for executives;
- review and approve any benefit plans, retirement and deferred compensation or other perquisites offered to the Executive Officers and other eligible employees; and
- review the Company's compensation practices so that they do not encourage imprudent risk taking.

The Committee has the sole authority to retain such consultants and advisors as it may deem appropriate and to approve related fees and other retention terms. The Committee has retained Semler Brossy Consulting Group, LLC ("Semler Brossy"), an independent compensation consulting firm, to advise the Committee on executive compensation and benefit matters. Semler Brossy reports directly to the Committee, provides services only as directed by the Committee or other Committees of the Board and has no other relationship with the Company. During 2015, all fees paid to Semler Brossy for services were related exclusively to executive or Director compensation. The Compensation Committee has assessed the independence of Semler Brossy pursuant to NYSE rules and determined that Semler Brossy is independent and its work for the Compensation Committee does not raise any conflict of interest.

A consultant from Semler Brossy attends Committee meetings in person or by phone and supports the Committee by providing independent expertise on market practices and trends in executive compensation within the general industry and the peer group defined for such purposes. Additionally, the consultant provides advice regarding the composition of the Company's peer group and analysis of peer group practices for base salary, performance-based bonus, long-term incentives and other compensation elements, and advice on management's proposed levels of executive compensation. Semler Brossy also advises the Committee on compensation program design including incentive structure, stock ownership guidelines, regulatory requirements related to executive compensation, plans submitted to shareholders for approval, governance responsibilities, and such other matters as assigned by the Committee from time to time as necessary to carry out its responsibilities under its Charter.

Corporate Governance and Nominating Committee

As more fully described in its Charter, the primary responsibilities of the Corporate Governance and Nominating Committee are to:

- review and recommend individuals to the Board for nomination as members of the Board and its Committees;
- review possible conflicts of interest of Board members and the Company's Executive Officers;
- develop and review the Company's Corporate Governance Guidelines;
- review and consider revisions to the corporate governance standards contained in the Company's Codes of Business Conduct and Ethics;
- review and recommend approval of the policies and practices of the Company in the area of corporate governance;
- produce and provide to the Board an annual performance evaluation of the Board, the Directors, Committee Chairs and each Committee of the Board;
- establish succession procedures in the case of an emergency or the retirement of one or more of the Co-Presidents;
- recommend to the Board the form and amount of Director compensation; and
- review the overall performance of the Co-Presidents on an annual basis.

Finance Committee

As more fully described in its Charter, the primary responsibilities of the Finance Committee are to:

- assist the Board in fulfilling its oversight responsibilities with respect to the Company's capital structure, financial policies, capital investments, business and financial planning and related matters;
- review and discuss the Company's tax strategies and the implications of actual or proposed tax law changes;
- review and discuss the Company's dividend payment and share repurchase strategies, banking relationships, borrowing facilities and cash management; and
- monitor the rating assigned by rating agencies to the Company's long-term debt.

Additionally, in conjunction with the Technology Committee, the Committee makes recommendations to the Board with respect to investments in technology.

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Technology Committee

As more fully described in its Charter, the primary responsibilities of the Technology Committee are to:

- assist the Board in its oversight with respect to the Company's technology strategy;
- review and discuss the Company's technology acquisition and development process to assure ongoing business growth;
- review and discuss the Company's data management and automation processes, and measurement and tracking systems; and
- review and discuss the Company's policies and safeguards for information technology and data security.

Additionally, in conjunction with the Finance Committee, the Committee makes recommendations to the Board with respect to investments in technology.

Board Meetings and Attendance

The Board held five meetings during the past fiscal year, one of which was devoted principally to Company strategy. During the past fiscal year, the Audit Committee held eleven meetings and the Compensation Committee, the Corporate Governance and Nominating Committee, the Finance Committee and the Technology Committee each held four meetings. Also during the past fiscal year, the Board reviewed and discussed alternatives regarding the deployment of the proceeds from the sale of the Company's credit card receivables and appointed a Special Committee which held one meeting devoted to allocation and use of the proceeds from the sale. Each Director attended at least 75% of the aggregate of all meetings of the Board and the Committees on which he or she served during the year and overall attendance at the meetings, on a combined basis, was 92%. Independent members of the Board met at each quarterly meeting of the Board in executive session without management present.

Attendance at the Annual Meeting of Shareholders

Although all members of the Board are expected to attend each Annual Meeting of Shareholders, the Company has not adopted a formal policy on Board member attendance. All Directors attended the 2015 Annual Meeting of Shareholders. Shareholders are encouraged to direct any questions that they may have to the Directors or management at the Annual Meeting.

Director Compensation

The Company's pay-for-performance philosophy for Director compensation reflects the Board's belief that payment of a majority of the Director fees in the form of Common Stock aligns the interests of Directors with the interests of the Company's shareholders and enhances Director compensation when the Company performs well. The Board believes that the Director fees paid by the Company should be competitive with other companies of similar characteristics.

Employee Directors of the Company are not paid any fees for serving as members of the Board. Nonemployee Director compensation consists of the following elements:

Annual Compensation Elements for 2015	Amount (\$)^(a)
Director Retainer	85,000
Audit Committee Chair Retainer	20,000
Compensation Committee Chair Retainer	20,000
Corporate Governance and Nominating Committee Chair Retainer	15,000
Finance Committee Chair Retainer	15,000
Technology Committee Chair Retainer	15,000
Audit Committee Liaison to Nordstrom fsb Board Retainer	20,000
Director Equity Grant of Common Stock Award having a grant date value of	140,000
Chairman of the Board Equity Grant of Common Stock having a grant date value of	200,000

(a) Directors may elect to take some or all of their cash retainer fees in Common Stock.

Under the Director Stock Ownership Guidelines, Directors are currently required to own Common Stock having a value of at least \$425,000 by their fifth anniversary of joining the Board. As of March 11, 2016, each Director nominated for election at the Annual Meeting had either satisfied these ownership guidelines or had time remaining to do so.

[Back to Contents](#)**Director Summary Compensation Table**

During the fiscal year ended January 30, 2016, nonemployee Directors of the Company received the following compensation for their services:

Name	Fees Earned	Stock	All Other	Total
	or Paid in Cash	Awards	Compensation	
	(\$)(a)(b)	(\$)(b)(c)	(\$)(d)	(\$)
Shellye L. Archambeau	85,000	139,998	7,786	232,784
Phyllis J. Campbell	85,000	139,998	19,518	244,516
Tanya L. Domier	85,000	139,953	10,535	235,488
Michelle M. Ebanks	85,000	139,998	7,481	232,479
Enrique Hernandez, Jr.	85,000	339,963	13,537	438,500
Robert G. Miller	100,000	139,998	9,142	249,140
Philip G. Satre	100,000	139,998	1,775	241,773
Brad D. Smith	115,000	139,998	2,146	257,144
Gordon A. Smith	42,500	69,994	4,248	116,742
Bradley A. Tilden ⁽¹⁾	—	—	—	—
B. Kevin Turner	99,945	139,998	31,689	271,632
Robert D. Walter	105,000	139,998	5,873	250,871
Alison A. Winter	125,000	139,998	3,174	268,172

(1) Mr. Tilden joined the Board in February 2016, following the end of the fiscal year.

(a) Fees Earned or Paid in Cash

The amounts reported reflect the cash fees paid to each nonemployee Director, whether or not such fees were deferred or taken as Common Stock. In addition to the \$85,000 annual retainer, Mr. Miller and Mr. Satre each received \$15,000 for service as the Finance Committee Chair and Corporate Governance and Nominating Committee Chair, respectively. Mr. Brad Smith received \$15,000 for service as the Audit Committee Chair and \$15,000 for service as Audit Committee Liaison, the prorated fee for his appointment in August 2015 to those positions. Mr. Gordon Smith was appointed to the Board in November 2015 and received a prorated annual retainer. Mr. Turner received \$15,000 for service as the Technology Committee Chair and elected to take his cash fees in Common Stock. Mr. Walter received \$20,000 for service as the Compensation Committee Chair, and Ms. Winter received \$20,000 for service as the Audit Committee Chair and \$20,000 for service as Audit Committee Liaison.

(b) Deferred Compensation Program

Nonemployee Directors may elect to defer all or a part of their cash retainers and stock awards under the Nordstrom Directors Deferred Compensation Plan (“Directors Plan”). Directors are required to make advance elections to defer the receipt of fees or stock awards, and all deferral elections generally are irrevocable. Directors are also required to make advance elections about the form and timing of distribution of their deferred cash fees or stock awards.

In 2015, cash deferrals could be directed among 19 deemed investment alternatives and gains and losses for cash deferrals were posted to the Director's account daily based on their investment elections. In addition, plan participants were offered a fixed rate option of 5% in 2015, which was not subsidized by the Company, but rather was a rate based on guaranteed contractual returns from a third-party insurance company provider. Deferred stock awards are credited to the Director's account as units. Each unit in the Directors Plan is equal in value to the price of one share of Common Stock. Each deferred unit is credited with dividends, in the form of additional units, to the same extent as a share of Common Stock.

During the fiscal year ended January 30, 2016, Ms. Archambeau deferred 100% of her cash fees to the Directors Plan, and Mr. Satre and Mr. Walter each deferred 100% of his stock award into the Directors Plan.

(c) Stock Award

The amounts reported reflect the grant date fair value associated with each Director's stock awards. Fractional shares are not awarded or paid in cash. In recognition of the significant time and attention in performing the duties required of the position, our Chairman of the Board is annually awarded, on the date of the Company's Annual Meeting, an additional stock award having a value of \$200,000.

(d) All Other Compensation

All Directors, their spouses and eligible children may participate in the Company's employee merchandise discount program. The program provides discounts ranging from 20% for eligible nonmanagement employees up to 33% for eligible management and high-performing nonmanagement employees and Directors. A 40% discount is available at certain times of the year on specified merchandise. These discounts vary somewhat by source and type of merchandise or service. During the fiscal year ended January 30, 2016, All Other Compensation consisted only of merchandise discounts.

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Compensation Committee Interlocks and Insider Participation

During the fiscal year ended January 30, 2016, no member of the Compensation Committee was an employee, officer or former officer of the Company or any of its subsidiaries, and no Executive Officer of the Company served on the board of directors or compensation committee of any entity that has one or more directors, or compensation committee of any entity that has one or more Executive Officers, serving as a member of the Company's Board or Compensation Committee.

Codes of Business Conduct and Ethics and Other Policies

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, including our Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer and persons performing similar functions. We have also adopted a Directors' Code of Business Conduct and Ethics that applies to all of our Directors. A grant of a waiver from a provision of the codes requiring disclosure under applicable SEC rules, if any, will be disclosed on our website at *investor.nordstrom.com* under Corporate Governance.

We have a policy that prohibits Directors and Executive Officers (as well as other key insiders and their immediate family members) from engaging in hedging or short sale transactions with respect to the Company's Common Stock. We also have a policy with respect to pledging of Common Stock, which subjects Directors and Executive Officers to a preclearance requirement and restrictions, including that pledged shares may not be counted toward the Company's stock ownership guidelines. Our Executive Officers, in the aggregate, have less than 0.4% of the Company's outstanding shares pledged to third parties and are compliant with our policy.

Corporate Social Responsibility

Our goal is to operate our business with the utmost integrity and serve our customers, employees and shareholders in a way that is deserving of their support and trust. Social responsibility is one way we can follow through with this commitment. We actively pursue solutions to reduce our environmental impact, contribute to the communities we serve, and support the rights of workers who create our products. We believe that both transparency and collaboration are key to progress in all of these areas, and we disclose on our efforts in an annual Corporate Social Responsibility Report. More information can be found at *nordstrom.com* under Nordstrom Cares. We also continue to work with and learn from interested parties. For example, as a result of discussions with shareholders represented by Newground Social Investment, we have agreed to enhance the disclosure of our expenditures that relate to political and trade-association activities. Nordstrom does not use corporate funds to make contributions to support or oppose federal, state or local political parties, candidates, campaigns and/or ballot measures. Our statement on political activity may be accessed through our website at *investor.nordstrom.com* under Corporate Governance.

Website Access to Corporate Governance Documents

The Charters for each of the standing Committees of the Board, the Company's Corporate Governance Guidelines, the Employee Code of Business Conduct and Ethics, and the Directors' Code of Business Conduct and Ethics, as well as all Company filings made with the SEC, may be accessed through our website at *investor.nordstrom.com*, under Corporate Governance and SEC Filings.

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PROPOSAL 1 ELECTION OF DIRECTORS

The Board recommends a vote FOR each nominee.

Twelve nominees, recommended by the Company's Board of Directors, will be elected at the Annual Meeting, each to hold office until the 2017 Annual Meeting of Shareholders and until their successors have been duly elected and qualified. All of the nominees, who are listed in this Proposal 1, are currently Directors of the Company.

Director Qualifications and Experience

The Board, acting through the Corporate Governance and Nominating Committee, seeks a Board that, as a whole, possesses the experience, skills, backgrounds and qualifications appropriate to function effectively in light of the Company's current and evolving business circumstances. The Committee reviews the size of the Board, the tenure of our Directors and their skills, backgrounds and experiences in determining the slate of nominees and whether to seek one or more new candidates. The Committee seeks directors with established records of significant accomplishments in business and areas relevant to our strategies. With respect to the nomination of continuing Directors for re-election, the individual's prior contributions to the Board are also considered.

All of our Directors bring to our Board a wealth of executive leadership experience derived from their service as executives and, in most cases, chief executive officers of large corporations. As a group, they also bring extensive board experience. The process undertaken by the Committee in recommending qualified director candidates is described in the Director Nominating Process below.

Director Nominating Process

The Corporate Governance and Nominating Committee is responsible for identifying and recommending to the Board the nominees to stand for election as directors at each Annual Meeting of Shareholders or, if applicable, at a special meeting of shareholders.

In nominating director candidates, the Committee considers such factors as it deems appropriate, including whether there are any evolving needs of the Board with respect to a particular field, skill or experience. These factors may include judgment, skill, experience with businesses and other organizations, the candidate's experience and skill set relative to those of other members of the Board and the extent to which the candidate would be a desirable addition to the Board and any Committees of the Board. In addition to these factors, the Committee may also consider a director candidate's diversity of background during the evaluation and selection process of director candidates. In this context,

diversity is broadly construed to mean varied skills, backgrounds and experiences, which include gender and ethnicity, as well as other differentiating characteristics, all in the context of the requirements and needs of the Board at that point in time. The Committee, however, does not have a formal policy regarding how diversity of background should be applied in identifying or evaluating director candidates, and, depending on the current needs of the Board, the Committee may weigh certain factors more or less heavily. The goal of the Committee is to assist the Board in attracting competent individuals with the requisite management, financial and other expertise who will act as directors in the best interests of the Company and its shareholders.

The Committee will consider the qualifications of director candidates recommended by shareholders, and evaluate each of them using the same criteria the Committee uses for incumbent candidates. Shareholders who wish to submit nominees for election as directors should follow the procedures described on page 64.

The following table summarizes key qualifications, skills or attributes most relevant to the decision to nominate an individual to serve on the Board. A mark indicates an area of focus or expertise on which the Board relies. The lack of a mark, however, does not mean the Director does not possess that qualification or skill.

Director	Global/ International Commerce	Retail Industry	e-Commerce/ Technology	Finance/ Accounting	Senior Executive Management	Customer- Legal Focused Business
Shellye L. Archambeau						
Tanya L. Domier						
Enrique Hernandez, Jr.						
Blake W. Nordstrom						
Erik B. Nordstrom						
Peter E. Nordstrom						
Philip G. Satre						
Brad D. Smith						
Gordon A. Smith						
Bradley D. Tilden						
B. Kevin Turner						
Robert D. Walter					2,000,000	

and Chief
Operating
Officer⁽⁸⁾

Maureen T. Mullarkey Executive Vice President, Chief Financial Officer and Treasurer	2004	450,385	904,993 ⁽¹¹⁾
	2003	358,173	893,817 ⁽¹¹⁾
	2002	266,731	491,904 ⁽¹¹⁾
Robert A. Bittman Executive Vice President, Product Strategy	2004	311,539	437,790 ⁽¹³⁾
	2003	300,000	436,000 ⁽¹³⁾
	2002	300,000	432,889 ⁽¹³⁾
Anthony Ciorciari Executive Vice President, Operations	2004	285,673	434,654 ⁽¹⁵⁾
	2003	257,616	480,920 ⁽¹⁵⁾
	2002	240,000	426,460 ⁽¹⁵⁾
Ward Chilton Senior Vice President, North America Sales	2004	285,000	434,587 ⁽¹⁷⁾
	2003	249,538	429,954 ⁽¹⁷⁾
	2002	229,231	425,146 ⁽¹⁷⁾

(1) Amounts shown include base salary earned and received by executive officers in the fiscal year. Salary and bonus amounts do not include any non-cash compensation.

(2) Amounts represent bonuses that were earned in the fiscal year but which may be paid in future fiscal years.

(3) During fiscal 2004, certain executive officers received perquisites, including tax or estate planning, medical reimbursement, personal training and golf fees. No executive officer received perquisites with an aggregate value exceeding \$50,000 for the fiscal year.

(4) Amounts represent the number of shares of common stock underlying options granted (adjusted for the June 2003 4-for-1 stock split).

(5) Mr. Baker served as our Chief Executive Officer until October 27, 2003.

(6) Amounts for 2004, 2003 and 2002, respectively, include \$78,753, \$88,981 and \$75,875 under IGT's annual cash sharing bonus program.

(7) Amounts for 2004, 2003 and 2002, respectively, include \$336, \$432 and \$432 for term life insurance premiums; \$24,357, \$22,858 and \$22,085 of employer profit sharing contributions under IGT's Profit Sharing 401(k) Plan; and \$69,439, \$57,298 and \$62,697 of employer profit sharing contributions under IGT's nonqualified executive deferred compensation plan.

(8) Mr. Matthews became our Chief Executive Officer as of October 27, 2003.

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(9) Amounts for 2004, 2003 and 2002, respectively, include \$79,955, \$54,000 and \$39,987 under IGT's annual cash sharing bonus program.

(10) Amounts for 2004, 2003 and 2002, respectively, include \$336, \$432 and \$432 for term life insurance premiums; \$24,357, \$22,858 and \$0 of employer profit sharing contributions under IGT's Profit Sharing 401(k) Plan; and \$36,769, \$26,594 and \$0 of employer profit sharing contributions under IGT's nonqualified executive deferred compensation plan.

(11) Amounts for 2004, 2003 and 2002, respectively, include \$54,993, \$43,817, \$29,404 paid under IGT's cash sharing bonus program.

(12) Amounts for 2004, 2003 and 2002, respectively, include \$336, \$432 and \$432 for term life insurance premiums; \$24,357, \$22,858 and \$22,085 of employer profit sharing contributions under IGT's Profit Sharing 401(k) Plan; and \$24,649, \$8,286 and \$4,418 in employer profit sharing contributions under IGT's nonqualified executive deferred compensation plan.

(13) Amounts for 2004, 2003 and 2002, respectively, include \$37,790, \$36,000 and \$32,889 under IGT's cash sharing bonus program.

(14) Amounts for 2004, 2003 and 2002, respectively, include \$336, \$432 and \$432 for life insurance premiums; \$24,357, \$22,858 and \$22,085 of employer profit sharing contributions under IGT's Profit Sharing 401(k) Plan; and \$13,583, \$11,429 and \$16,979 of employer profit sharing contributions under IGT's nonqualified executive deferred compensation plan.

(15) Amounts for 2004, 2003 and 2002, respectively, include \$34,654, \$30,920 and \$26,460 under IGT's cash sharing bonus program.

(16) Amounts for 2004, 2003 and 2002, respectively, include \$336, \$432 and \$432 for term life insurance premiums; \$24,357, \$22,858 and \$22,085 of employer profit sharing contributions under IGT's Profit Sharing 401(k) Plan; and \$8,726, \$5,099 and \$7,835 of employer profit sharing contributions under IGT's nonqualified executive deferred compensation plan.

(17) Amounts for 2004, 2003, and 2002 respectively, include \$34,587, \$29,954 and \$25,146 under IGT's cash sharing bonus program.

(18) Amounts for 2004, 2003, and 2002 respectively, include \$336, \$432 and \$432 for life insurance premiums; \$24,357, \$22,858 and \$22,085 of employer profit sharing contributions under IGT's Profit sharing 401(k) Plan; and \$7,998, \$3,903 and \$3,488 of employer profit sharing contributions under IGT's nonqualified executive deferred compensation plan.

Options

The tables below sets forth certain information regarding options granted and exercised during fiscal 2004 to the persons named in the Summary Compensation Table.

Option Grants

Name	Individual Grants		Exercised	Expiration	Potential Realizable Value	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year			or Base Price Per Share	at Assumed Annual Rates for Option Term ⁽¹⁾
	Granted			Date	5%	10%
G. Thomas Baker	1,500,000	21.22%	\$ 31.57	10/27/2013	\$ 29,781,305	\$ 75,471,674
Thomas J. Matthews	600,000	8.49	31.57	10/27/2013	11,912,522	30,188,670
Maureen T.	60,000	.85	35.70	12/31/2013	1,347,092	3,413,796
Mullarkey	100,000	1.41	41.59	03/01/2014	2,615,573	6,628,375
Robert A. Bittman	50,000	.71	35.70	12/31/2013	1,122,577	2,844,830
Anthony Ciorciari	50,000	.71	35.70	12/31/2013	1,122,577	2,844,830
Ward Chilton	50,000	.71	35.70	12/31/2013	1,122,577	2,844,830

⁽¹⁾ These options have a ten year term and vest in equal annual installments over five years with the exception of Mr. Baker's option, which vests with respect to 300,000 shares on the first anniversary date of the grant date; 525,000 shares on the second anniversary date of the grant date; and 675,000 shares on the third anniversary date of the grant date, and Mr. Matthew's option which vests with respect to 100,000 shares on the first anniversary date of the grant date; 200,000 shares on the second anniversary date of the grant date; and 300,000 shares on the third anniversary date of the grant date.

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Name	Options Exercised		Number of Securities Underlying Unexercised Options at 9/30/2004		Value of Unexercised In-the-Money Options at 9/30/2004 ⁽¹⁾	
	Shares Acquired	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
G. Thomas Baker		\$	2,134,616	1,500,000	\$ 51,408,273	\$ 4,980,000
Thomas J. Matthews			800,000	2,200,000	13,912,000	35,222,240
Maureen T. Mullarkey			420,000	830,000	9,161,548	11,906,050
Robert A. Bittman	80,000	2,247,100		210,000		3,724,400
Anthony Ciorciari	59,600	1,401,089	40,000	358,400	931,100	5,476,394
Ward Chilton	95,600	2,985,684		238,400		3,938,694

⁽¹⁾ Market value of the underlying securities at 10/1/04, the last trading day of our 52/53-week fiscal year ending on the Saturday closest to 9/30, less the exercise price.

Employment Contracts and Change in Control Arrangements

We entered into a three-year employment agreement with G. Thomas Baker, our former President and Chief Executive Officer, under which he assumed the position of Chairman, effective as of October 27, 2003. The term of employment will be automatically extended for one year on each anniversary after the initial three-year term unless either we or Mr. Baker provides at least 60 days' written notice that the term will not be extended. In November 2004, Mr. Baker informed IGT that he will resign as a director and officer effective as of the 2005 annual meeting. The agreement provides for a base salary of \$750,000 through December 6, 2003 and \$600,000 per year for the balance of the term of employment. In addition, Mr. Baker will have an annual bonus opportunity that will be established each year by the Compensation Committee of the Board (but not to exceed 150% of base salary). Fifty percent (50%) of the bonus opportunity will be based on our annual year-over-year increase in operating income, twenty-five percent (25%) will be based on annual operating performance of our international operations, and twenty-five percent (25%) will be payable based upon other objectives determined by the Compensation Committee. If we terminate Mr. Baker's employment without cause (as defined in the agreement) or because he dies or becomes disabled, or if he elects at his discretion to sever his relationship with IGT upon a transfer to a third party of 40% or more of our outstanding stock, we will pay Mr. Baker (or his estate) a severance payment equal to two years' base salary at the highest annualized rate in effect at any time during the term, payable in twenty-four (24) equal monthly installments, plus any applicable deferred bonus, and any unvested stock options held by him at that time will immediately vest in full. In addition, if we terminate Mr. Baker's employment without cause or if he elects to sever his relationship following a transfer to a third party of 40% or more of our outstanding stock, but not in the case of death or disability, we shall pay Mr. Baker a one-time lump sum equal to a pro-rata portion of the bonus he would have been entitled to in the year in which the termination occurs, under the bonus plan described above, as determined by the Board. Upon termination for any reason, with or without cause, we will continue to provide Mr. Baker with medical benefits or a payment equal to the reasonable cost of obtaining medical benefits equivalent or similar to the benefits being received on the last day of employment. We will pay or reimburse Mr. Baker for all co-pays or deductibles. This benefit terminates upon Mr. Baker's death and is secondary to Medicare or any other insurance during Mr. Baker's life. Mr. Baker agrees to enroll in Medicare as soon as he is eligible. Mr. Baker is also eligible to participate in our profit sharing, cash sharing, and employee stock purchase plans, as well as other employee benefit plans and programs for which he is otherwise eligible under the terms of such plans or programs. On October 27, 2003, Mr. Baker was granted an option to purchase 1,500,000 shares of our common stock at a price of \$31.57 per share. The option vests in three annual installments, with 300,000 shares vesting on the first anniversary of the grant, 525,000 shares vesting on the second

anniversary and 675,000 shares vesting on the third anniversary of the grant date. Additionally, under his prior employment agreement Mr. Baker was granted an option to purchase 2,000,000 shares of our common stock at \$11.25 per share

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(after adjusting for the stock split effected in June 2003). Those stock options vested in three equal annual installments upon the first, second and third anniversaries of the award, ending on December 5, 2003. Mr. Baker will retire as Chairman, effective as of March 1, 2005.

We entered into a three-year employment agreement with Thomas J. Matthews, under which he assumed the positions of President and Chief Executive Officer, effective as of October 27, 2003. The term of employment will be automatically extended for one year on each anniversary after the initial three-year term unless either we or Mr. Matthews provides at least 60 days written notice that the term will not be extended. The agreement provides for a minimum annual base salary of \$650,000 per year, subject to annual review and increase by the Compensation Committee of the Board. In addition, Mr. Matthews will have an annual bonus opportunity that will be established each year by the Compensation Committee of the Board (but not to exceed 300% of base salary). Seventy percent (70%) of the bonus opportunity will be based on our annual year-over-year increase in operating income, and thirty percent (30%) will be payable based upon other objectives determined by the Compensation Committee. If we terminate Mr. Matthews' employment without cause (as defined in the agreement) or because he dies or becomes disabled, or if he elects at his discretion to sever his relationship with IGT upon a transfer to a third party of 40% or more of our outstanding stock, we will pay Mr. Matthews (or his estate) a severance payment equal to two years' base salary at the highest annualized rate in effect at any time during the term, payable in twenty-four (24) equal monthly installments, plus any applicable deferred bonus, and any unvested stock options held by him at that time will immediately vest in full. In addition, if we terminate Mr. Matthews' employment without cause or if he elects to sever his relationship following a transfer to a third party of 40% or more of our outstanding stock, but not in the case of death or disability, we shall pay Mr. Matthews a one-time lump sum equal to a pro-rata portion of the bonus he would have been entitled to in the year in which the termination occurs, under the bonus plan described above, as determined by the Board. Mr. Matthews is also eligible to participate in our profit sharing, cash sharing, and employee stock purchase plans, as well as other employee benefit plans and programs for which he is otherwise eligible under the terms of such plans or programs. On October 27, 2003, Mr. Matthews was granted an option to purchase 600,000 shares of our common stock at a price of \$31.57 per share. The award vests in three annual installments, with 100,000 shares vesting on the first anniversary of the grant, 200,000 shares vesting on the second anniversary and 300,000 shares vesting on the third anniversary of the grant date. Additionally, under his prior employment agreement Mr. Matthews was granted an option to purchase 2,000,000 shares of our common stock at a price of \$17.50 per share (after adjusting for the stock split effected in June 2003). That award vests in five equal annual installments beginning on the first anniversary of the award.

Maureen T. Mullarkey entered into a five-year employment agreement with us on January 12, 2001, and was appointed as our Senior Vice President and Chief Financial Officer effective March 2, 2001. The agreement was amended on January 27, 2003, and Ms. Mullarkey was promoted to the positions of Executive Vice President and Chief Financial Officer. The amended agreement provides for an annual base salary of \$400,000, and extended the term of her employment for five years from the effective date of the agreement. At the end of the five-year term, Ms. Mullarkey's employment will be at will. Ms. Mullarkey will receive minimum annual salary increases of at least \$25,000 and is eligible to participate in our profit sharing, cash sharing, management bonus and employee stock purchase plans, as well as other employee benefit plans and programs for which she is otherwise eligible under the terms of such plans or programs. In addition, we will reimburse Ms. Mullarkey for up to \$30,000 for financial advisory services over the term of the employment agreement. The bonus earned by Ms. Mullarkey through the management bonus program may not exceed 200% of base salary, and for each year that a bonus is earned, 25% of that bonus shall be accrued and paid two years later, provided that she remains employed by us at that time. IGT waived its right to require Ms. Mullarkey to defer the bonuses earned pursuant to her employment agreement in fiscal 2004. The management bonus is payable based upon the increase in our operating profits before incentives over the previous fiscal year, attainment of our fiscal year ERP program goals, and various management objectives set by the Chief Executive Officer in consultation with Ms. Mullarkey. In addition to the bonuses under her agreement, Ms. Mullarkey received a bonus of \$50,000 for fiscal 2002, payment of which was deferred until December 2004. We

may terminate Ms. Mullarkey for cause or upon her disability (in each case, as defined in the agreement). If we terminate Ms. Mullarkey's employment without cause, or if she elects at her discretion to sever her relationship with IGT upon a transfer to a third party of 40% or more of our outstanding stock, she will be

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entitled to receive a lump sum payment equal to one year's base salary and any applicable deferred bonus. Any stock options held by her at that time will immediately vest in full. We will also pay any premiums for Ms. Mullarkey's health benefits under COBRA, to the extent she is eligible for COBRA benefits, for the shorter of one year or until she secures new employment. If Ms. Mullarkey dies during the term of the agreement, her estate (or other person as she has directed in writing) will be entitled to receive one year's base salary and any deferred bonus. Additionally, in her employment agreement Ms. Mullarkey was granted an option to purchase 400,000 shares of our common stock at a price of \$11.1875 per share (as adjusted in connection with our June 2003 stock split), and in the amended agreement, she was granted an option to purchase 600,000 shares of our common stock at a price of \$19.10. Both of the options vest in five equal annual installments beginning on the first anniversary of the awards.

Our 1993 Stock Option Plan and our 2002 Stock Incentive Plan contain provisions that would be triggered by a change of control of IGT. Unless before a Change in Control Event, as defined in the plans, the Compensation Committee of our board of directors determines that, upon its occurrence, benefits will not be accelerated, then generally upon the Change in Control Event each option will become immediately exercisable, restricted stock will vest, and performance-based awards will become payable.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 and regulations of the SEC require our executive officers, directors, and persons who beneficially own more than 10% of our common stock, as well as certain affiliates of those persons, to file initial reports of ownership and monthly transaction reports covering any changes in ownership with the SEC and NYSE. SEC regulations require these persons to furnish us with copies of all reports they file pursuant to Section 16(a). Based solely upon a review of the copies of the reports received by us, we believe that, during fiscal 2004, except as described in the next sentence, all filing requirements applicable to executive officers and directors were complied with in a timely manner. Two Forms 4 reporting exempt grants of stock options to Anthony Ciorciari and a restricted stock award to Mr. Ciorciari's spouse, an employee of IGT, were inadvertently filed late.

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THE FOLLOWING REPORT OF THE COMPENSATION COMMITTEE AND THE PERFORMANCE GRAPH THAT APPEARS AFTER THE REPORT SHALL NOT BE DEEMED TO BE SOLICITING MATERIAL OR TO BE FILED WITH THE SEC UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES EXCHANGE ACT OF 1934 OR INCORPORATED BY REFERENCE IN ANY DOCUMENT SO FILED.

**BOARD COMPENSATION COMMITTEE REPORT
ON EXECUTIVE COMPENSATION**

The role of the Compensation Committee of the board of directors is to oversee our compensation programs and policies, review and approve all executive officers' compensation, and administer certain incentive compensation programs. The Committee's membership is determined by the Nominating and Corporate Governance Committee of the board of directors and is composed entirely of independent directors. The Compensation Committee regularly reports on its actions and recommendations at board meetings, and has the authority to engage the services of independent consultants and other advisors and experts as may be required for the Committee to carry out its duties.

Compensation Philosophy

Generally, IGT's compensation programs are designed to attract, retain, motivate and appropriately reward individuals who are responsible for IGT's short- and long-term profitability, growth and return to shareholders. The overall compensation philosophy followed by the Committee is to pay competitively while emphasizing qualitative indicators of corporate and individual performance.

In 2004, the Compensation Committee directly engaged an outside compensation consulting firm to provide an independent analysis of our equity based compensation practices. Their assessment included a competitive analysis of IGT practices, dilution, expense tolerance, dividend yields, fair value accounting, and investor perspectives. The results of the analysis indicated that IGT is competitive with the practices of other comparably-sized companies and companies within our industry.

Executive Compensation

IGT's management bonus plan is a cash-based incentive program to motivate and reward eligible employees for their contributions to IGT's performance, and for fiscal 2004, was based on IGT's income from operations. Individual cash bonus awards were made to the executive officers because the Committee believes such awards provide appropriate performance incentives. Individual cash bonus awards for executive officers other than the Chief Executive Officer were determined for fiscal 2004 by IGT's Chief Executive Officer, Mr. Matthews, based upon his subjective evaluation of each officer's individual performance.

The Committee also uses stock option and restricted stock awards made under the International Game Technology 2002 Stock Incentive Plan to provide various incentives for key personnel, including executive officers. Stock options are priced at the market value of IGT common stock on the date of grant, and typically vest at the rate of 20% per year over five years with exercisability dependent on continued employment. Stock options require IGT stock price appreciation in order for the employees to realize any benefit, thus directly aligning employee and stockholder interests.

G. Thomas Baker, Robert A. Bittman, Ward Chilton, Anthony Ciorciari, David D. Johnson, Thomas J. Matthews, Maureen T. Mullarkey and Richard Pennington all received stock option awards, and Messrs. Bittman, Chilton, Ciorciari, Johnson, Pennington and Ms. Mullarkey received restricted stock awards, in fiscal 2004. These awards were granted based upon the Committee's subjective evaluation of individual current performance, assumption of significant responsibilities, anticipated future contributions, ability to impact overall corporate and/or business unit financial results, each executive's total compensation package, options and other stock awards previously granted, dilution effects, and industry practices and trends. The stock option granted to Mr. Baker in fiscal 2004 was also based on Mr. Baker's acceptance of the position of Chairman and his contributions to IGT in that role.

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As one of the factors in its consideration of compensation matters, the Compensation Committee also considers the anticipated tax treatment to IGT and to the executives of various payments and benefits, specifically in consideration of Section 162(m) of the Internal Revenue Code. The Committee will not, however, limit executive compensation to that which is deductible.

Chief Executive Compensation

Mr. Baker was Chief Executive Officer of IGT from December 2000 until October 27, 2003. During the period of fiscal 2004 prior to October 27, 2003, Mr. Baker received an annualized base salary of \$750,000 under his then-current employment agreement.

Mr. Matthews succeeded Mr. Baker as Chief Executive Officer effective as of October 27, 2003. At that time, Mr. Matthews entered into an employment agreement with IGT, the primary terms of which are detailed in IGT's 2005 proxy statement under the heading "Other Information - Employment Contracts and Change in Control Arrangements." The agreement provides for a minimum annual base salary of \$650,000 per year, subject to annual review and increase by the Compensation Committee. In connection with the employment agreement, Mr. Matthews was granted an option to purchase 600,000 shares of IGT's common stock at a price of \$31.57 per share (the closing price of IGT's common stock on the date of issuance). The award vests in three annual installments, with 100,000 shares vesting on the first anniversary of the grant, 200,000 shares vesting on the second anniversary and 300,000 shares vesting on the third anniversary of the grant date. In approving the terms of Mr. Matthews's employment agreement, including Mr. Matthews's annual base salary rate and his stock option covering 600,000 shares of IGT common stock, the Committee considered the stock option grant factors outlined above, Mr. Matthews's new position as Chief Executive Officer, as well as comparative compensation information of other comparably-sized companies and companies within IGT's industry. During the portion of fiscal 2004 in which Mr. Matthews acted as Chief Executive Officer, he received an annualized base salary of \$650,000 pursuant to the terms of his employment agreement and a management bonus of \$1,579,955.

Under Mr. Matthews's employment agreement, Mr. Matthews was eligible to receive a bonus for fiscal 2004 not to exceed 300% of his base salary, 70% of which was to be based on IGT's annual year-over-year increase in operating income, and 30% of which was payable based upon other objectives determined by the Compensation Committee. The Compensation Committee determined that IGT's increases in operating income and Mr. Matthews's performance had met or exceeded expectations for fiscal 2004 and, accordingly, that Mr. Matthews should receive the maximum bonus he is eligible for under his employment contract. However, Mr. Matthews voluntarily requested that his bonus for fiscal 2004 not exceed the amount of his bonus for fiscal 2003. Accordingly, the Compensation Committee determined that Mr. Matthews's bonus for fiscal 2004 would equal \$1.5 million (exclusive of payments under IGT's annual cash sharing program), an amount equal to Mr. Matthews's bonus (exclusive of annual cash sharing) for fiscal 2003.

COMPENSATION COMMITTEE

Frederick B. Rentschler, Chairman
Richard R. Burt
Robert Miller

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PERFORMANCE GRAPH

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 from October 1, 1999 through September 30, 2004 in comparison to the Standard and Poor's 500 Composite Index and our peer groups. The comparisons are not intended to forecast or be indicative of possible future performance of our common stock.

	1999	2000	2001	2002	2003	2004
International Game Technology	100	187	236	384	630	810
S & P500	100	113	83	66	82	94
Peer Group	100	119	177	241	382	447

The peer group includes Alliance Gaming Corp., GTECH Holdings Corp., Mikohn Gaming, Shuffle Master and WMS Industries, Inc.

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PROPOSAL 3 - RATIFICATION OF INDEPENDENT AUDITORS

Deloitte & Touche LLP were our independent auditors for the year ended September 30, 2004 and have reported on our consolidated financial statements included in the annual report which accompanies this proxy statement. Our independent auditors are appointed by our board of directors in consultation with the Audit Committee. The board has reappointed Deloitte & Touche LLP as our independent auditors for the year ending September 30, 2005. In the event that the shareholders do not approve Deloitte & Touche LLP as independent auditors, the selection of independent auditors will be reconsidered by the board. A representative of Deloitte & Touche LLP will be present at the annual meeting, will have an opportunity to make a statement and will be available to respond to appropriate questions.

THE FOLLOWING REPORT OF THE AUDIT COMMITTEE SHALL NOT BE DEEMED TO BE SOLICITING MATERIAL OR TO BE FILED WITH THE SEC UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES EXCHANGE ACT OF 1934 OR INCORPORATED BY REFERENCE IN ANY DOCUMENT SO FILED.

AUDIT COMMITTEE REPORT

In accordance with its written charter, which was restated by the Board of Directors in December 2002, the Audit Committee assists the board of directors in fulfilling its responsibility for oversight of the quality of IGT's accounting, auditing and financial reporting practices.

The Audit Committee consists of three members, each of whom satisfy the independence, financial literacy and experience requirements of the NYSE. Management is responsible for the financial reporting process, the preparation of consolidated financial statements in accordance with generally accepted accounting principles and the system of internal controls and procedures designed to insure compliance with accounting standards and applicable laws and regulations. IGT's independent auditors are responsible for auditing IGT's financial statements. The Audit Committee's responsibility is to monitor and review these processes and procedures. The members of the Audit Committee are not professionally engaged in the practice of accounting or auditing and are not experts in the fields of accounting or auditing. The Audit Committee relies, without independent verification, on the information provided to it and on the representations made by management and the independent auditors that the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

During fiscal 2004, the Audit Committee had twelve regular meetings and two special meetings. The Audit Committee met and held discussions with management, the internal auditors and the independent auditors, Deloitte & Touche LLP. The meetings were conducted so as to encourage communication among the members of the Audit Committee, management, the internal auditors and the independent auditors. The Audit Committee discussed with Deloitte & Touche LLP matters required to be discussed by Statement on Auditing Standards No. 61, as amended, Communications with Audit Committees.

The Audit Committee reviewed and discussed the audited consolidated financial statements of IGT as of and for the year ended September 30, 2004 with management, the internal auditors and the independent auditors. The Board of Directors, including the Audit Committee, received an opinion of Deloitte & Touche LLP as to the conformity of such audited consolidated financial statements with accounting principles generally accepted in the United States of America.

The Audit Committee discussed with IGT's internal auditors and Deloitte & Touche LLP the overall scope and plans for their respective audits. The Audit Committee met regularly with the internal auditors and Deloitte & Touche LLP, with and without management present, to discuss the results of their examinations, the evaluations of IGT's

internal controls and the overall quality of IGT's accounting principles.

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In addition, the Audit Committee obtained from Deloitte & Touche LLP written documentation describing all relationships between Deloitte & Touche LLP and IGT that might bear on Deloitte & Touche LLP's independence consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. The Audit Committee discussed with Deloitte & Touche LLP any relationships that may have an impact on their objectivity and independence and satisfied itself as to Deloitte & Touche LLP's independence. The Audit Committee also considered whether the provision of information technology and similar services and other non-audit services by Deloitte & Touche LLP to IGT is compatible with maintaining Deloitte & Touche LLP's independence. The Audit Committee also reviewed, among other things, the amount of fees paid to Deloitte & Touche LLP for audit and non-audit services.

Based on the above-mentioned review and discussions with management, the internal auditors and Deloitte & Touche LLP, and subject to the limitations on our role and responsibility described above and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors that IGT's audited consolidated financial statements be included in IGT's Annual Report on Form 10-K for the fiscal year ended September 30, 2004, for filing with the SEC. The Audit Committee also recommended the selection of IGT's independent auditors, and based on our recommendation, the Board of Directors has selected Deloitte & Touche LLP as IGT's independent auditors for the fiscal year ending September 30, 2005, subject to shareholder ratification.

AUDIT COMMITTEE

Neil Barsky
Richard R. Burt
Leslie S. Heisz, Chairman

Fees Paid to Independent Registered Public Accountants

SEC rules effective May 6, 2003 require our Audit Committee to pre-approve all audit and permissible non-audit services provided by our independent auditor, Deloitte & Touche LLP, with certain limited exceptions. Our Audit Committee has concluded that the non-audit services provided by Deloitte & Touche LLP are compatible with maintaining auditor independence. Aggregate fees for which we have been or expect to be billed for services rendered by Deloitte & Touche LLP are presented below.

Years ended September 30, <i>(in millions)</i>	2004	2003
Audit ⁽¹⁾	\$ 1.1	\$ 1.2
Audit-related ⁽²⁾	0.4	0.5
Tax ⁽³⁾	2.2	1.6
All other		
Total	\$ 3.7	\$ 3.3

(1) Audit fees consist of services that would normally be provided in connection with statutory and regulatory filings or engagements, including services that generally only the independent accountant can reasonably provide.

(2)

Audit-related fees relate to assurance and associated services that traditionally are performed by the independent accountant, including: attest services that are not required by statute or regulation; accounting consultation and audits in connection with mergers, acquisitions and divestitures; employee benefit plan audits; and consultation concerning financial accounting and reporting standards.

- (3) Tax fees relate to services performed for tax compliance, planning, and advice.

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Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent public accountants, Deloitte & Touche LLP. The policy generally pre-approves certain specific services in the defined categories of audit services, audit-related services, and tax services up to specified amounts, and sets requirements for specific case-by-case pre-approval of discrete projects, those which may have a material effect on our operations or services over certain amounts. Pre-approval may be given as part of the Audit Committee's approval of the scope of the engagement of our independent auditor or on an individual basis. The pre-approval of services may be delegated to one or more of the Audit Committee's members, but the decision must be presented to the full Audit Committee at its next scheduled meeting. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the SEC and also considers whether proposed services are compatible with the independence of the public accountants.

Recommendation of IGT Board of Directors

Approval of this proposal requires the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote at the annual meeting. Abstentions will have the effect of a no vote. Broker non-votes will have no effect on the results.

Our board of directors recommends a vote FOR approval of Deloitte & Touche LLP as our independent auditors for the year ending September 30, 2005.

SHAREHOLDER PROPOSALS FOR THE 2006 ANNUAL MEETING

Proposals of shareholders intended to be presented at our next annual meeting must be received by us by September 23, 2005 to be considered for inclusion in our proxy statement relating to that meeting. Shareholders desiring to present a proposal at the next annual meeting but who do not desire to have the proposal included in the proxy materials distributed by us must deliver written notice of such proposal to us prior to December 7, 2005 or the persons appointed as proxies in connection with the next annual meeting will have discretionary authority to vote on any such proposal.

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GENERAL

Our annual report to shareholders, containing audited financial statements, accompanies this proxy statement. Our most recent annual report on Form 10-K as filed with the SEC is available on our website at <http://www.IGT.com>. Shareholders may also obtain a copy of the Form 10-K, without charge, upon written request to:

International Game Technology
Attn: Investor Relations
9295 Prototype Drive
Reno, Nevada 89521-8986
Telephone: (775) 448-0110
Fax: (775) 448-1137

As of the date of this proxy statement, our board of directors knows of no business which will be presented for consideration at the meeting other than the matters stated in the accompanying Notice of Annual Meeting of Shareholders and described in this proxy statement. If, however, any matter incident to the conduct of the meeting or other business properly comes before the meeting, the persons acting under the proxies intend to vote with respect to those matters or other business in accordance with their best judgment, and the proxy includes discretionary authority to do so.

BY ORDER OF THE BOARD OF DIRECTORS

David D. Johnson
Secretary

Reno, Nevada
January 21, 2005

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**INTERNATIONAL GAME TECHNOLOGY
2002 STOCK INCENTIVE PLAN**

(Composite Plan Document Reflecting Proposed Amendments)

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**INTERNATIONAL GAME TECHNOLOGY
2002 STOCK INCENTIVE PLAN**

(Composite Plan Document Reflecting Proposed Amendments)

I. THE PLAN

1.1 Purpose

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

1.2 Administration and Authorization; Power and Procedure

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

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

(i) to determine eligibility and, from among those persons determined to be eligible, the particular Eligible Employees who will receive any Awards;

(ii) to grant Awards to Eligible Employees, determine the price at which securities will be offered or awarded and the amount of securities to be offered or awarded to any of such individuals, and determine the other specific terms and conditions of such Awards consistent with the express limits of this Plan, and establish the installments (if any) in which such Awards shall become exercisable or shall vest, or determine that no delayed exercisability or vesting is required, and establish the events of termination or reversion of such Awards;

(iii) to approve the forms of Award Agreements (which need not be identical either as to type of Award or as among Participants);

(iv) to construe and interpret this Plan and any agreements defining the rights and obligations of the Company and Participants under this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan;

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(v) to cancel, modify, or waive the Corporation's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding Awards held by Eligible Employees, subject to any required consent under Section 6.6;

(vi) to accelerate or extend the exercisability or extend the term of any or all such outstanding Awards within the maximum ten-year term of Awards under Section 1.6;

(vii) to adjust the number of shares of Common Stock subject to any Award, adjust the price of any or all outstanding Awards or otherwise change previously imposed terms and conditions, in such circumstances as the Committee may deem appropriate, in each case subject to Sections 1.4 and 6.6, and provided that in no case (except due to an adjustment contemplated by Section 6.2 or any repricing that may be approved by stockholders) shall such an adjustment constitute a repricing (by amendment, cancellation and regrant, exchange or other means) of the per share exercise or base price of any Option or Stock Appreciation Right; and

(viii) to make all other determinations and take such other action as contemplated by this Plan or as may be necessary or advisable for the administration of this Plan and the effectuation of its purposes.

Notwithstanding the foregoing, Non-Employee Directors shall be eligible for the Nonqualified Stock Option grants contemplated by Article VII and the provisions of Article VII shall be automatic and, to the maximum extent possible, self-effectuating.

(c) *Binding Determinations.* Any action taken by, or inaction of, the Corporation, any Subsidiary, the Board or the Committee relating or pursuant to this Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. Neither the Board nor the Committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan (or any Award made under this Plan), and all such persons shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time. Subject only to compliance with the express provisions hereof, the Board and Committee may act in their absolute discretion in matters within their authority related to this Plan.

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

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

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1.3 Participation

Awards may be granted by the Committee only to those persons that the Committee determines to be Eligible Employees. An Eligible Employee who has been granted an Award may, if otherwise eligible, be granted additional Awards if the Committee shall so determine. Non-Employee Directors shall be eligible to receive the Nonqualified Stock Options granted automatically without action of the Committee under the provisions of Article VII but shall not be eligible for any other Awards under this Plan.

1.4 Shares Available for Awards; Share Limits

Subject to the provisions of Section 6.2, the capital stock that may be delivered under this Plan shall be shares of the Corporation's authorized but unissued Common Stock and any shares of its Common Stock held as treasury shares. The shares may be delivered for any lawful consideration. Subject to adjustment as provided in or pursuant to this Section 1.4 or Section 6.2:

(a) *Aggregate Share Limits.* The maximum number of shares of Common Stock that may be delivered pursuant to all Awards granted under this Plan, other than Nonqualified Stock Options granted to Non-Employee Directors pursuant to Article VII, shall not exceed 23,800,000¹ shares of Common Stock. The maximum number of shares of Common Stock that may be delivered pursuant to all Nonqualified Stock Options granted to Non-Employee Directors pursuant to Article VII shall not exceed 1,200,000 shares of Common Stock.

(b) *Individual Limits.* The maximum number of shares of Common Stock subject to Options and Stock Appreciation Rights that are granted under this Plan during any fiscal year to any individual shall not exceed 4,000,000 shares. Additional limits are in Section 5.2(c).

(c) *Incentive Stock Option Limit.* The maximum number of shares of Common Stock that may be delivered pursuant to Options intended as Incentive Stock Options granted under this Plan shall not exceed 23,800,000.

(d) *Limit on Full-Value Awards.* The maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under this Plan, other than those described in the next sentence, is 2,205,000² shares. This limit on so-called full-value awards does not apply, however, to (1) shares delivered in respect of compensation earned but deferred, (2) shares delivered in respect of Option grants, or (3) shares delivered in respect of Stock Appreciation Right grants (provided that the exercise price per share of Common Stock under the related Award, if applicable, or the initial share value specified in such Stock Appreciation Right is not less than the fair market value of a share of Common Stock on the date of grant).

¹ The current aggregate share limit is 14,800,000 shares. Stockholders are being asked to approve an amendment to the Plan that would increase the aggregate share limit by an additional 9,000,000 shares so that the new aggregate share limit for the Plan would be 23,800,000 shares.

² The Plan currently includes a limit on restricted stock and stock bonus awards of 1,480,000 shares. Stockholders are being asked to approve an amendment to the Plan that would apply this limit to all full-value awards granted under the Plan and increase this limit by an additional 725,000 shares so that the new limit on full-value awards under the Plan would be 2,205,000 shares.

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(e) *Share Reservation; Replenishment and Reissue of Unvested Awards.* No Award may be granted under this Plan unless, on the date of grant, the sum of (i) the maximum number of shares issuable at any time pursuant to such Award, plus (ii) the number of shares that have previously been issued pursuant to Awards granted under this Plan, other than reacquired shares available for reissue consistent with any applicable legal limitations, plus (iii) the maximum number of shares that may be issued at any time after such date of grant pursuant to Awards that are outstanding on such date, does not exceed the applicable limit under Section 1.4(a) or other any other limit set forth above in this Section 1.4. Shares that are subject to or underlie Awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall again, except to the extent prohibited by law, be available for subsequent Awards under this Plan and shall not count against the applicable limit under Section 1.4(a) or any other limit set forth above in this Section 1.4. In instances where a Stock Appreciation Right or other Award is settled in cash or any form other than shares of Common Stock, no shares shall be counted against the applicable limit under Section 1.4(a) or any other limit set forth above in this Section 1.4. The payment of cash dividends and dividend equivalents in conjunction with outstanding Awards shall not be counted against the shares available for issuance under this Plan. Any shares that are issued by the Company, and any awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an affiliate of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Company (or a subsidiary or affiliate) in connection with a business or asset acquisition or similar transaction) shall not be counted against the shares available for issuance under this Plan.

(f) *Section 162(m).* Adjustments to the share limit set forth in Section 1.4(a) as well as the other limits set forth above are subject to any applicable limitations under Section 162(m) of the Code with respect to Awards intended as performance-based compensation thereunder.

1.5 Grant of Awards

Subject to the express provisions of this Plan, the Committee shall determine the number of shares of Common Stock subject to each Award, the price (if any) to be paid for the shares or the Award and, in the case of Performance Share Awards, in addition to matters addressed in Section 1.2(b), the specific objectives, goals and performance criteria (such as an increase in sales, market value, earnings or book value over a base period, the years of service before vesting, the relevant job classification or level of responsibility or other factors) that further define the terms of the Performance Share Award. Each Award shall be evidenced by an Award Agreement signed by the Corporation and, if required by the Committee, by the Participant. The Award Agreement shall set forth the material terms and conditions of the Award established by the Committee consistent with the specific provisions of this Plan.

1.6 Award Period

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

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1.7 Limitations on Exercise and Vesting of Awards

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

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

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

1.8 Acceptance of Notes to Finance Exercise

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

- (a) The principal of the note shall not exceed the amount required to be paid to the Corporation upon the exercise or receipt of one or more Awards under this Plan and the note shall be delivered directly to the Corporation in consideration of such exercise or receipt.
- (b) The initial term of the note shall be determined by the Committee; provided that the term of the note, including extensions, shall not exceed a period of 10 years.
- (c) The note shall provide for full recourse to the Participant and shall bear interest at a rate determined by the Committee but not less than the applicable imputed interest rate specified by the Code.
- (d) If the employment of the Participant terminates, the unpaid principal balance of the note shall become due and payable on the 10th business day after such termination; provided, however, that if a sale of such shares would cause such Participant to incur liability under Section 16(b) of the Exchange Act, the unpaid balance shall become due and payable on the 10th business day after the first day on which a sale of such shares could have been made without incurring such liability assuming for these purposes that there are no other transactions by the Participant subsequent to such termination.
- (e) If required by the Committee or by applicable law, the note shall be secured by a pledge of any shares or rights financed thereby in compliance with applicable law.

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

1.9 No Transferability

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

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

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

(i) transfers to the Corporation,

(ii) the designation of a beneficiary to receive benefits in the event of the Participant's death or, if the Participant has died, transfers to or exercise by the Participant's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution,

(iii) transfers pursuant to a QDRO if approved or ratified by the Committee,

(iv) if the Participant has suffered a disability, permitted transfers or exercises on behalf of the Participant by his or her legal representative, or

(v) the authorization by the Committee of cashless exercise procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of Awards consistent with applicable laws and the express authorization of the Committee.

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

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II. EMPLOYEE OPTIONS

2.1 Grants

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

2.2 Option Price

(a) *Pricing Limits.* The purchase price per share of the Common Stock covered by each Option shall be determined by the Committee at the time the Option is granted, but in no case shall such purchase price be less than 100% (110% in the case of an Option intended as an Incentive Stock Option granted to a Participant described in Section 2.4) of the Fair Market Value of the Common Stock on the Award Date.

(b) *Payment Provisions.* The purchase price of any shares purchased on exercise of an Option granted under this Article shall be paid in full at the time of each purchase in one or a combination of the following methods: (i) in cash or by electronic funds transfer; (ii) by check payable to the order of the Corporation; (iii) if authorized by the Committee or specified in the applicable Option Agreement, by a promissory note of the Participant consistent with the requirements of Section 1.8; (iv) by notice and third party payment in such manner as may be authorized by the Committee; or (v) by the delivery of shares of Common Stock of the Corporation already owned by the Participant, *provided, however*, that the Committee may in its absolute discretion limit the Participant's ability to exercise an Option by delivering such shares. Shares of Common Stock used to satisfy the exercise price of an Option shall be valued at their Fair Market Value on the date of exercise. Any shares of Common Stock used to satisfy the exercise price of an Option that were initially acquired upon exercise of a stock option must have been owned by the Participant for at least six months prior to such use.

In addition to the payment methods described above, the Committee may, in its discretion, provide that an Option can be exercised in accordance with such cashless exercise procedures as the Committee may adopt in the circumstances.

2.3 Limitations on Grant and Terms of Incentive Stock Options

(a) *\$100,000 Limit.* To the extent that the aggregate Fair Market Value of stock with respect to which Incentive Stock Options first become exercisable by a Participant in any calendar year exceeds \$100,000, taking into account both Common Stock subject to Incentive Stock Options under this Plan and stock subject to Incentive Stock Options under all other plans of the Company or any parent corporation, such options shall be treated as nonqualified stock options. For this purpose, the Fair Market Value of the stock subject to options shall be determined as of the date the options were optioned. In reducing the number of options treated as Incentive Stock Options to meet the \$100,000 limit, the most recently granted options shall be reduced first. To the extent a reduction of simultaneously granted options is necessary to meet the \$100,000 limit, the Committee may, in the manner and to the extent permitted by law, designate which shares of Common Stock are to be treated as shares acquired pursuant to the exercise of an Incentive Stock Option.

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

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

2.4 Limits on 10% Holders

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

III. STOCK APPRECIATION RIGHTS

3.1 Grants

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

3.2 Exercise of Stock Appreciation Rights

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

(b) *Effect on Available Shares.* To the extent that a Stock Appreciation Right is exercised and settled in the form of Common Stock (as opposed to cash or other property), the number of underlying shares as to which the exercise related shall be counted against the applicable share limit(s) under Section 1.4 as opposed to only counting the number of shares actually issued. (For purposes of clarity, if a Stock Appreciation Right relates to 100,000 shares and is exercised at a time when the payment due to the Participant with respect to such exercise is 15,000 shares, 100,000 shares shall be charged against the applicable share limit(s) under Section 1.4 with respect to such exercise.) See Section 1.4(e) as to Stock Appreciation Rights paid in a form other than a Common Stock payment. The number of shares subject to a Stock Appreciation Right, and the related Option (if any), of a Participant shall be reduced by the number of underlying shares as to which the Stock Appreciation Right is exercised.

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(c) *Stand-Alone Stock Appreciation Rights*. A Stock Appreciation Right granted independently of any other Award shall be exercisable pursuant to the terms of the Award Agreement.

3.3 Payment

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

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

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

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

3.4 Limited Stock Appreciation Rights

The Committee may grant to any Eligible Employee Stock Appreciation Rights exercisable only upon or in respect of a change in control or any other specified event (Limited SARs) and such Limited SARs may relate to or operate in tandem or combination with or substitution for Options, other Stock Appreciation Rights or other Awards (or any combination thereof), and may be payable in cash or shares based on the spread between the base price of the Stock Appreciation Right and a price based upon the Fair Market Value of the shares during a specified period or at a specified time within a specified period before, after or including the date of such event.

IV. RESTRICTED STOCK AWARDS

4.1 Grants

(a) *Restricted Stock*. The Committee may, in its discretion, grant one or more Restricted Stock Awards to any Eligible Employee. Each Restricted Stock Award Agreement shall specify the number of shares of Common Stock to be issued to the Participant, the date of such issuance, the consideration for such shares (but not less than the minimum lawful consideration under applicable state law), the extent (if any) to which and the time (if ever) at

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which the Participant shall be entitled to dividends, voting and other rights in respect of the shares prior to vesting and the restrictions (which may be based on performance criteria, the passage of time or such other facts as the Committee may provide or any combination thereof) imposed on such shares and the conditions of release or lapse of such restrictions. Such restrictions shall not lapse earlier than 12 months after the Award Date, except to the extent the Committee may otherwise provide. Stock certificates evidencing shares of Restricted Stock pending the lapse of the restrictions (restricted shares) shall bear a legend making appropriate reference to the restrictions imposed hereunder and (if in certificate form) shall be held by the Corporation or by a third party designated by the Committee until the restrictions on such shares shall have lapsed and the shares shall have vested in accordance with the provisions of the Award and Section 1.7. Upon issuance of the Restricted Stock Award, the Participant may be required to provide such further assurance and documents as the Committee may require to enforce the restrictions.

(b) *Stock Units*. The Committee may, in its discretion, authorize and grant to any Eligible Employee a Stock Unit Award or the crediting of Stock Units for services rendered or to be rendered or in lieu of other compensation, consistent with other applicable terms of this Plan, may permit an Eligible Employee to irrevocably elect to defer by means of Stock Units or receive in Stock Units all or a portion of any Award hereunder, or may grant Stock Units in lieu of, in exchange for, in respect of, or in addition to any other Compensation or Award under this Plan. The specific terms, conditions, and provisions relating to each Stock Unit grant or election, including the applicable vesting and payout provisions of the Stock Units and the form of payment to be made at or following the vesting thereof, shall be set forth in or pursuant to the applicable agreement or Award and any relevant Company deferred compensation plan, in form substantially as approved by the Committee.

(c) *Payouts*. The Committee in the applicable Award Agreement or the relevant Company deferred compensation plan may permit the Participant to elect the form and time of payout of vested Stock Units on such conditions or subject to such procedures as the Committee may impose, and may permit restricted stock or Stock Unit offsets or other provision for payment of any applicable taxes that may be due on the crediting, vesting or payment in respect of the Stock Units.

4.2 Restrictions

(a) *Pre-Vesting Restraints*. Except as provided in Section 4.1 and 1.9, restricted shares comprising any Restricted Stock Award and rights in respect to Stock Unit Awards may not be sold, assigned, transferred, pledged or otherwise disposed of or encumbered, either voluntarily or involuntarily, until the restrictions on such shares (or units in the case of a Stock Unit Award) have lapsed and the shares have become vested (or amounts paid in respect of the Stock Units).

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

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Restricted Stock Awards and Stock Unit Awards may include dividend equivalent rights to the extent authorized by the Committee.

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

4.3 Return to the Corporation

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

V. PERFORMANCE SHARE AWARDS AND STOCK BONUSES

5.1 Grants of Performance Share Awards.

The Committee may, in its discretion, grant Performance Share Awards to Eligible Employees based upon such factors as the Committee shall deem relevant in light of the specific type and terms of the award. An Award Agreement shall specify the maximum number of shares of Common Stock (if any) subject to the Performance Share Award, the consideration (but not less than the minimum lawful consideration) to be paid for any such shares as may be issuable to the Participant, the duration of the Award and the conditions upon which delivery of any shares or cash to the Participant shall be based. The amount of cash or shares or other property that may be deliverable pursuant to such Award shall be based upon the degree of attainment over a specified period (a performance cycle) as may be established by the Committee of such measure(s) of the performance of the Company (or any part thereof) or the Participant as may be established by the Committee. The Committee may provide for full or partial credit, prior to completion of such performance cycle or the attainment of the performance achievement specified in the Award, in the event of the Participant's death, or Total Disability, a Change in Control Event or in such other circumstances as the Committee consistent with Section 6.10(c)(2), if applicable, may determine.

5.2 Special Performance-Based Share Awards.

Without limiting the generality of the foregoing, and in addition to Options and Stock Appreciation Rights granted under other provisions of this Plan which are intended to satisfy the exception for performance-based compensation under Section 162(m) of the Code (with such Awards hereinafter referred to as a Qualifying Option or a Qualifying Stock Appreciation Right, respectively), other performance-based awards within the meaning of Section 162(m) of the Code (Performance-Based Awards), whether in the form of restricted stock, performance stock, phantom stock, Cash-Based Awards, or other rights, the grant, vesting, exercisability or payment of which depends on the degree of achievement of the Performance Goals relative to

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preestablished targeted levels for the Corporation on a consolidated, segment, subsidiary, business division, channel or other operating group basis, may be granted under this Plan. Any Qualifying Option or Qualifying Stock Appreciation Right shall be subject only to the requirements of Section 5.3(a) in order for such Award to satisfy the requirements for performance-based compensation under Section 162(m) of the Code.

(a) *Eligible Class.* The eligible class of persons for Performance-Based Awards under this Section 5.2 shall be key employees (including officers) of the Company.

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

(c) *Maximum Performance-Based Award.* Notwithstanding any other provision of this Plan to the contrary, the maximum number of shares of Common Stock which may be delivered pursuant to Performance-Based Awards (other than Qualifying Options and Qualifying Stock Appreciation Rights which shall be subject to the limit set forth in Section 1.4(b)) that are granted to any one Participant in any one fiscal year shall not exceed 4,000,000 shares, either individually or in the aggregate, subject to adjustment as provided in Section 6.2. Awards that are cancelled during the year shall be counted against this limit to the extent required by Section 162(m) of the Code. In addition, the aggregate amount of compensation to be paid to any Participant in respect of any Cash-Based Awards that are granted during any fiscal year as Performance-Based Awards shall not exceed \$3,000,000.

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

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

(f) *Adjustments for Changes in Capitalization and other Material Changes.* In the event of a change in corporate capitalization, such as a stock split or stock dividend, or a

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

5.3 Grants of Stock Bonuses.

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

5.4 Deferred Payments.

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

VI. OTHER PROVISIONS

6.1 Rights of Eligible Employees, Participants and Beneficiaries

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

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

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

6.2 Adjustments; Acceleration

(a) *Adjustments.* Upon or in contemplation of any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution (spin-off) in respect of the Common Stock (whether in the form of securities or property); any exchange of Common Stock or other securities of the Corporation, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; or a sale of all or substantially all the assets of the Corporation as an entirety (asset sale); then the Committee shall, in such manner, to such extent (if any) and at such time as it deems appropriate and equitable in the circumstances:

(1) proportionately adjust any or all of (i) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of Awards (including the specific maxima and numbers of shares set forth elsewhere in this Plan), (ii) the number, amount and type of shares of Common Stock (or other securities or property) subject to any or all outstanding Awards, (iii) the grant, purchase, or exercise price of any or all outstanding Awards, (iv) the securities, cash or other property deliverable upon exercise of any outstanding Awards, or (v) (subject to limitations under Section 6.10(c)) the performance standards appropriate to any outstanding Awards, or

(2) make provision for a cash payment or for the assumption, substitution or exchange of any or all outstanding share-based Awards or the cash, securities or property deliverable to the holder of any or all outstanding share-based Awards, based upon the distribution or consideration payable to holders of the Common Stock upon or in respect of such event.

The Committee may adopt such valuation methodologies for outstanding Awards as it deems reasonable in the event of a cash or property settlement and, in the case of Options, Stock Appreciation Rights or similar rights, but without limitation on other methodologies, may base such settlement solely upon the excess if any of the amount payable upon or in respect of such event over the exercise or strike price of the Award. In any of such events, the Committee may take such action prior to such event to the extent that the Committee deems the action necessary

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to permit the Participant to realize the benefits intended to be conveyed with respect to the underlying shares in the same manner as is or will be available to stockholders generally.

(b) *Acceleration of Awards Upon Change in Control.* As to any Eligible Employee, unless prior to a Change in Control Event the Committee determines that, upon its occurrence, there shall be no acceleration of benefits under Awards or determines that only certain or limited benefits under Awards shall be accelerated and the extent to which they shall be accelerated, and/or establishes a different time in respect of such Change in Control Event for such acceleration, then upon the occurrence of a Change in Control Event (i) each Option and Stock Appreciation Right shall become immediately exercisable, (ii) Restricted Stock and Stock Units shall immediately vest free of restrictions, and (iii) each Performance Share Award shall become payable to the Participant. The Committee may override the limitations on acceleration in this Section 3.2(b) by express provision in the Award Agreement and may accord any Eligible Employee a right to refuse any acceleration, whether pursuant to the Award Agreement or otherwise, in such circumstances as the Committee may approve. Without limiting the generality of the foregoing, the Committee may deem an acceleration to occur immediately prior to the applicable event and/or reinstate the original terms of an Award if an event giving rise to acceleration does not occur.

(c) *Possible Early Termination of Accelerated Awards.* If any Option or other right to acquire Common Stock under this Plan has been fully accelerated as permitted by Section 6.2(b) or Section 7.7 but is not exercised prior to (i) a dissolution of the Corporation, or (ii) an event described in Section 6.2(a) that the Corporation does not survive, or (iii) the consummation of an event described in Section 6.2(a) that results in a Change in Control Event approved by the Board, such Option or right shall thereupon terminate, subject to any provision that has been expressly made by the Board or the Committee through a plan or reorganization or otherwise for the survival, substitution, assumption, exchange or other settlement of such Option or right.

(d) *Possible Rescission of Acceleration.* If the vesting of an Award has been accelerated expressly in anticipation of an event or upon stockholder approval of an event and the Committee or the Board later determines that the event will not occur, the Committee may rescind the effect of the acceleration as to any then outstanding and unexercised or otherwise unvested Awards.

6.3 Effect of Termination of Employment

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

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(b) *Effect on Unvested Awards.* Unless otherwise provided in the applicable Award Agreement and subject to Section 6.12 and the other provisions of this Plan, a Restricted Stock Award, Stock Appreciation Right, Performance Share Award, Stock Unit Award or other Award, to the extent such Award has not vested as of the termination of the Participant's employment shall terminate on the date the Participant ceases to be employed by the Company without further payment or benefit of any kind; and any Option theretofore outstanding shall terminate.

(c) *Events Not Deemed Terminations of Service.* Unless Company policy or the Committee otherwise provides, the employment relationship shall not be considered terminated in the case of (a) sick leave, (b) military leave, or (c) any other leave of absence authorized by the Company or the Committee; provided that unless reemployment upon the expiration of such leave is guaranteed by contract or law, such leave is for a period of not more than 90 days. In the case of any Eligible Employee on an approved leave of absence, continued vesting of the Award while on leave from the employ of the Company may be suspended until the employee returns to service, unless the Committee otherwise provides or applicable law otherwise requires. In no event shall an Award be exercised after the expiration of the term set forth in the Award Agreement.

6.4 Compliance with Laws

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

6.5 Tax Withholding

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

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consistent manner at their Fair Market Value or at the sales price in accordance with authorized procedures for cashless exercises, necessary to satisfy the minimum applicable withholding obligation on exercise, vesting or payment. In the event shares are withheld to satisfy tax withholding obligations, in no event shall the number of shares withheld exceed the number required to satisfy the minimum required withholding.

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

6.6 Plan Amendment, Termination and Suspension

(a) *Board Authorization.* The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. Without limiting the generality of the foregoing, the Board may, at any time, amend any or all of the provisions of Article VII relating to Nonqualified Stock Option grants to Non-Employee Directors. No Awards may be granted during any suspension of this Plan or after termination of this Plan, but the Committee shall retain jurisdiction as to Awards then outstanding in accordance with the terms of this Plan.

(b) *Stockholder Approval.* To the extent then required under Sections 162, 422 or 424 of the Code or any other applicable law, or deemed necessary or advisable by the Board, any amendment to this Plan shall be subject to stockholder approval.

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

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

6.7 Privileges of Stock Ownership

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

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6.8 Effective Date of the Plan

The effective date of this Plan shall be the date that it is first approved by the Board (the Effective Date).

6.9 Term of the Plan

No Award shall be granted after the close of business on the day before the tenth anniversary of the Effective Date of this Plan (the Termination Date). Unless otherwise expressly provided in this Plan or in an applicable Award Agreement, any Award granted prior to the Termination Date may extend beyond such date, and all authority of the Committee with respect to Awards hereunder, including the authority to amend an Award, shall continue during any suspension of this Plan and in respect of outstanding Awards on such Termination Date.

6.10 Governing Law; Construction; Severability

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

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

(c) *Plan Construction.*

(1) *Rule 16b-3.* It is the intent of the Corporation that the Awards and transactions permitted by Awards be interpreted in a manner that, in the case of Participants who are or may be subject to Section 16 of the Exchange Act, satisfies the applicable requirements for exemptions under Rule 16b-3. Notwithstanding the foregoing, the Corporation shall have no liability to any Participant for Section 16 consequences of Awards or events under Awards.

(2) *Section 162(m).* It is the further intent of the Corporation that (to the extent the Corporation or Awards under this Plan may be or become subject to limitations on deductibility under Section 162(m) of the Code), Options or Stock Appreciation Rights granted with an exercise or base price not less than Fair Market Value on the date of grant and Awards under Section 5.2 of this Plan that are granted to or held by a person subject to Section 162(m) of the Code will qualify as performance-based compensation or otherwise be exempt from deductibility limitations under Section 162(m) of the Code, to the extent that the authorization of the Award (or the payment thereof, as the case may be) satisfies any applicable administrative requirements thereof.

6.11 Captions

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

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6.12 *Effect of Change of Subsidiary, Division, or Unit Status*

For purposes of this Plan and any Award hereunder, if an entity ceases to be a Subsidiary a termination of employment shall be deemed to have occurred with respect to each employee of such Subsidiary who does not continue as an employee of another entity within the Company. A termination of employment shall also be deemed to occur if an employee is employed in a Company division or business unit and, in connection with the sale, spin-off or other divestiture of that division or unit, the employee's employment is terminated and the employee does not otherwise continue as an employee of the Company. In the event of a sale, spin-off, or other divestiture of a Subsidiary, Company division or business unit, each employee who incurs a termination of employment in connection therewith (as determined by the Committee in its sole discretion) in accordance with either of the two preceding sentences shall be deemed to have been fully vested in his or her Awards immediately prior to such termination.

6.13 *Non-Exclusivity of Plan*

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

VII. NON-EMPLOYEE DIRECTOR OPTIONS

7.1 *Participation*

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

7.2 *Annual Option Grants*

(a) *Time of Initial Grant.* After approval of this Plan by the stockholders of the Corporation, if any person who is not then an officer or employee of the Company shall become a director of the Corporation, there shall be granted automatically to such person (without any action by the Board or Committee) a Nonqualified Stock Option (the Award Date of which shall be the date such person takes office) to purchase 40,000 shares.

(b) *Subsequent Annual Options.* In each calendar year during the term of this Plan, commencing in 2003, there shall be granted automatically (without any action by the Committee or the Board) a Nonqualified Stock Option to purchase 24,000 shares of Common Stock to each Non-Employee Director who is re-elected as a director of the Corporation (the Award Date of which shall be the date of such re-election).

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

7.3 *Option Price*

The purchase price per share of the Common Stock covered by each Option granted pursuant to Section 7.2 hereof shall be 100% of the Fair Market Value of the Common Stock on

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

7.4 Option Period and Exercisability

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

(a) the first installment shall vest on the earlier of (i) the first anniversary of the applicable Award Date or (ii) the Corporation's annual meeting of stockholders that occurs in the year following the year in which the Award Date occurs;

(b) the second installment shall vest on the earlier of (i) the second anniversary of the applicable Award Date or (ii) the Corporation's annual meeting of stockholders that occurs in the second year following the year in which the Award Date occurs;

(c) the third installment shall vest on the earlier of (i) the third anniversary of the applicable Award Date or (ii) the Corporation's annual meeting of stockholders that occurs in the third year following the year in which the Award Date occurs.

7.5 Termination of Directorship

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

7.6 Adjustments

Options granted under this Article VII shall be subject to adjustment as provided in Section 6.2, but only to the extent that (a) such adjustment and the Committee's action in respect thereof satisfy applicable law, (b) such adjustment in the case of a Change in Control Event is effected pursuant to the terms of a reorganization agreement approved by stockholders of the Corporation (or, if stockholder approval of such agreement is not required, by the Board), and (c) such adjustment is consistent with adjustments to Options held by persons other than executive officers or directors of the Corporation.

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7.7 Acceleration Upon a Change in Control Event

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

VIII. DEFINITIONS

8.1 Definitions

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

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

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

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

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

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

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

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

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

(1) The dissolution or liquidation of the Corporation (other than in the context of a transaction that does not constitute a Change in Control event under clause (2) below);

(2) Consummation of a merger, consolidation, or other reorganization, with or into, or the sale of all or substantially all of the Corporation's business and/or assets to, one or more entities that are not Subsidiaries (a Business Combination), as a result of which less than 50% of the outstanding voting securities of the surviving or resulting entity or a parent (Successor Entity) thereof immediately after the reorganization are, or will be, owned by stockholders of the Corporation immediately before the Business Combination (assuming for purposes of such determination that there is no change in the record ownership of the Corporation's securities from the record date for such approval until such reorganization and that such record owners hold no securities of the other parties to such reorganization);

(3) Any person (as such term is used in Section 13(d) and 14(d) of the Exchange Act) (other than a person having such ownership at the time of adoption of this Plan) becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing more than 50% of the combined voting power of the Corporation's then outstanding securities entitled to then vote generally in the election of directors of the Corporation, other than (i) an acquisition directly from the Company, (ii) an acquisition by the Company, or (iii) an acquisition by an employee benefit plan (or related trust) sponsored or maintained by the Company or a Successor Entity; or

(4) During any period not longer than two consecutive years, individuals who at the beginning of such period constituted the Board cease to constitute at least a majority thereof, unless the election, or the nomination for election by the Corporation's stockholders, of each new Board member was approved by a vote of at least a majority of the Board members then still in office who were Board members at the beginning of such period (including for these purposes, new members whose election or nomination was so approved), but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

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

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

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(l) **Committee** shall mean the Board or one or more committees appointed by the Board to administer all or certain aspects of this Plan, each committee to be comprised solely of one or more directors or such number as may be required under applicable law. Each member of a Committee in respect of any decision with respect to an Award intended to satisfy the requirements of Section 162(m) of the Code must satisfy the requirements of outside director status within the meaning of Section 162(m) of the Code; provided, however, that the failure to satisfy such requirement shall not affect the validity of the action of any committee otherwise duly authorized and acting in the matter. As to Awards, grants or other transactions that are authorized only by a committee and that are intended to be exempt under Rule 16b-3, the requirements of Rule 16b-3(d)(1) with respect to committee action must also be satisfied.

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

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

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

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

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

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

(s) **Fair Market Value** or any date shall mean (i) if the stock is listed or admitted to trade on a national securities exchange, the closing price of the stock on the Composite Tape, as published in the Western Edition of The Wall Street Journal, of the principal national securities exchange on which the stock is so listed or admitted to trade, on such date, or, if there is no trading of the stock on such date, then the closing price of the stock as quoted on such Composite Tape on the next preceding date on which there was trading in such shares; (ii) if the stock is not listed or admitted to trade on a national securities exchange, the last price for the stock on such date, as furnished by the National Association of Securities Dealers, Inc. (NASD) through the NASDAQ National Market Reporting System or a similar organization if the NASD is no longer reporting such information, (iii) if the stock is not listed or admitted to trade on a national securities exchange and is not reported on the National Market Reporting System, the mean between the bid and asked price for the stock on such date, as furnished by the NASD or a similar organization, or (iv) if the stock is not listed or admitted to trade on a national securities exchange, is not reported on the National Market Reporting System and if bid and asked prices for the stock are not furnished by the NASD or a similar organization, the value as established by the Committee at such time for purposes of this Plan.

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

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

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

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

(x) Participant shall mean an Eligible Employee who has been granted an Award under this Plan or a Non-Employee Director who has received a Nonqualified Stock Option under Article VII.

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

(z) Performance Goals shall mean earnings per share, or Cash Flow, or total stockholder return, or revenue growth, or operating income, or net earnings (before or after interest, taxes, depreciation and/or amortization), or return on equity or on assets or on net investment, or cost containment or reduction, or any combination thereof.

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

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

(cc) Plan shall mean this 2002 Stock Incentive Plan.

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

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

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

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

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

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

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

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

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

(mm) Stock Unit shall mean a bookkeeping entry which serves as a unit of measurement relative to a share of Common Stock for purposes of determining the payment, in Common Stock or cash, of an Award, including a deferred benefit or right under this Plan. Stock Units are not outstanding shares and do not entitle a Participant to any dividend, voting or other rights in respect of any Common Stock represented thereby or acquirable thereunder. Stock Units, may, however, by express provision in the applicable Award Agreement, entitle a Participant to dividend equivalent rights, as defined by the Committee.

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

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

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INTERNATIONAL GAME TECHNOLOGY

**VOTE BY TELEPHONE OR INTERNET
24 HOURS A DAY, 7 DAYS A WEEK**

TELEPHONE:

1-XXX-XXX-XXXX

(Toll-free number is available in the U.S. and Canada only)

INTERNET:

<https://xxxxxxxxxx>

MAIL:

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call. You will be prompted to enter your control number, located in the box below, and then follow the simple directions.

Use the internet to vote your proxy. Have your proxy card in hand when you access the website. You will be prompted to enter your control number, located in the box below, to create an electronic ballot.

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided.

Your telephone or internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned the proxy card. If you have submitted your proxy by telephone or the internet, there is no need for you to mail back your proxy.

The Board of Directors recommends a vote **FOR** all of the nominees listed below, **FOR** approval of the amendment to the International Game Technology 2002 Stock Incentive Plan and **FOR** ratification of the appointment of Deloitte & Touche LLP as IGT's independent auditors for the fiscal year ending September 30, 2005.

1. Election of Directors	FOR all nominees _____	WITHHOLD AUTHORITY to vote for all nominees listed below: _____	*EXCEPTIONS _____
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The Board of Directors recommends a vote **FOR** the nominees listed below:

Nominees: Neil Barsky, Robert A. Bittman, Richard R. Burt, Leslie S. Heisz, Robert A. Mathewson, Thomas J. Matthews, Robert Miller and Frederick B. Rentschler

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee's name in the space provided below.)

*Exceptions: _____

2. Approval of the Amendment to the International Game Technology 2002 Stock Incentive Plan:

FOR _____ **AGAINST** _____ **ABSTAIN** _____

3. Ratification of appointment of Deloitte & Touche LLP as IGT's independent auditors for the fiscal year ending September 30, 2005:

FOR _____ **AGAINST** _____ **ABSTAIN** _____

4. In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting.

Please sign name exactly as it appears on this card. Joint owners should each sign. Attorneys, trustees, executors, administrators, conservators, custodians, guardians or corporate officers should give full title:

DATE: _____
SIGNATURE: _____
SIGNATURE: _____

**Votes must be indicated
(x) in Black or Blue Ink.**

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**INTERNATIONAL GAME TECHNOLOGY
P R O X Y
ANNUAL MEETING OF SHAREHOLDERS, March 1, 2005**

The undersigned hereby acknowledges receipt of the Notice of Annual Meeting of Shareholders dated January 21, 2005, and accompanying Proxy Statement, and hereby appoints Thomas J. Matthews and David D. Johnson, and each of them, the proxies and attorneys-in-fact of the undersigned, with full power of substitution in each, for and in the name of the undersigned to attend the Annual Meeting of Shareholders of International Game Technology to be held on March 1, 2005 at 1:30 P.M., local time, at IGT's corporate office, 9295 Prototype Drive, Reno, Nevada, and any and all adjournments thereof, and to vote there at the number of shares of Common Stock which the undersigned would be entitled to vote if then personally present as specified on the reverse side:

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS AND WILL BE VOTED AS SPECIFIED ON THE REVERSE SIDE. IF NO SPECIFICATION IS MADE, IT WILL BE VOTED FOR ALL OF THE SPECIFIED DIRECTOR NOMINEES, FOR APPROVAL OF THE AMENDMENT TO THE INTERNATIONAL GAME TECHNOLOGY 2002 STOCK INCENTIVE PLAN AND FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP.

International Game Technology
XXXXXXXXXX
XXXXXXXXXX

(Continued, and to be signed and dated, on the reserve side.)

I plan to attend the meeting _____

To change your address, please mark this box and Write new address below _____