

ALLIANCE GAMING CORP

Form 10-Q

May 14, 2003

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2003  
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) of the  
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number 0-4281**

**ALLIANCE GAMING CORPORATION**

(Exact name of registrant as specified in its charter)

**NEVADA**  
(State or other jurisdiction of  
incorporation or organization)

**88-0104066**  
(I.R.S. Employer  
Identification No.)

**6601 S. Bermuda Rd.**  
**Las Vegas, Nevada**  
(Address of principal executive offices)

**89119**  
(Zip Code)

**Registrant's telephone number: (702) 270-7600**  
**Registrant's internet: www.alliancegaming.com**

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

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

The number of shares of Common Stock, \$0.10 par value, outstanding as of April 28, 2003, according to the records of the registrant's registrar and transfer agent was 49,352,000.

**TABLE OF CONTENTS**

**PART I**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS  
EQUITY**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES**

**PART II**

**ITEM 1. Legal Proceedings**

**ITEM 6. Exhibits and Reports on Form 8-K**

**SIGNATURES**

**CERTIFICATIONS**

**EXHIBIT 99.1**

---

**Table of Contents**

**ALLIANCE GAMING CORPORATION  
FORM 10-Q**

**For the quarter Ended March 31, 2003**

**I N D E X**

|  | <b>Page</b> |
|--|-------------|
| <b>PART I. FINANCIAL INFORMATION</b>   |             |
| Item 1. Unaudited Financial Statements   |             |
| Unaudited Condensed Consolidated Balance Sheets as of June 30, 2002 and March 31, 2003                       | 3           |
| Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2002 and 2003 | 4           |
| Unaudited Condensed Consolidated Statements of Operations for the nine months ended March 31, 2002 and 2003  | 5           |
| Unaudited Condensed Consolidated Statements of Stockholders Equity for the nine months ended March 31, 2003  | 6           |
| Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2002 and 2003  | 7           |
| Notes to Unaudited Condensed Consolidated Financial  | 8-23        |

|   |       |
|---|-------|
| Statements  |       |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 24-31 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | 32    |
| Item 4. Disclosure Controls and Procedures  | 32    |
| <b>PART II. OTHER INFORMATION</b>   |       |
| Item 1. Legal Proceedings   | 33    |
| Item 6. Exhibits and Reports on Form 8-K  | 33    |
| <b>SIGNATURES</b>   | 34    |
| <b>CERTIFICATIONS</b>   | 35-37 |

**Table of Contents**

**PART 1**  
**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In 000s, except share data)

|  | <u>June 30,<br/>2002</u> | <u>March 31,<br/>2003</u> |
|--|--------------------------|---------------------------|
| <b>ASSETS</b>  |                          |                           |
| Current assets:  |                          |                           |
| Cash and cash equivalents  | \$ 62,508                | \$ 65,847                 |
| Short-term investments (restricted)  | 896                      | 854                       |
| Accounts and short-term notes receivable, net of allowance for doubtful accounts of \$15,695 and \$14,474                        | 96,832                   | 123,190                   |
| Inventories, net of reserves of \$7,814 and \$6,450  | 42,997                   | 42,965                    |
| Deferred tax assets, net   | 27,605                   | 27,606                    |
| Other current assets   | 13,975                   | 15,230                    |
|  | <u>244,813</u>           | <u>275,692</u>            |
|  |                          |                           |
| Long-term notes receivable, net of allowance for doubtful accounts of \$456 and \$450  | 2,389                    | 17,506                    |
| Leased equipment, net of accumulated depreciation of \$9,931 and \$16,153  | 19,560                   | 30,396                    |
| Property, plant and equipment, net of accumulated depreciation and amortization of \$63,313 and \$74,720                         | 90,314                   | 91,411                    |
| Goodwill, net of accumulated amortization of \$6,517 and \$6,582   | 47,713                   | 53,584                    |
| Intangible assets, net of accumulated amortization of \$25,148 and \$30,022  | 32,512                   | 41,639                    |
| Deferred tax assets, net   | 18,240                   | 3,416                     |
| Other assets, net of reserves of \$1,818 and \$1,818   | 4,339                    | 4,057                     |
|  | <u>459,880</u>           | <u>517,701</u>            |
|  |                          |                           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                          |                           |
| Current liabilities:   |                          |                           |
| Accounts payable   | \$ 15,894                | \$ 23,964                 |
| Accrued liabilities  | 45,841                   | 44,335                    |
| Jackpot liabilities  | 5,915                    | 8,301                     |
| Current maturities of long-term debt   | 4,116                    | 4,425                     |
|  | <u>71,766</u>            | <u>81,025</u>             |
|  |                          |                           |
| Long-term debt, net  | 338,148                  | 345,908                   |
| Other liabilities  | 2,747                    | 3,575                     |
|  | <u>412,661</u>           | <u>430,508</u>            |
|  |                          |                           |
| Minority interest  | 1,233                    | 1,424                     |
| Commitments and contingencies  |                          |                           |
| Stockholders equity:   |                          |                           |
| Special Stock, 10,000,000 shares authorized: Series E, \$100 liquidation value; 120 shares and 115 shares issued and outstanding | 12                       | 12                        |
| Common Stock, \$.10 par value; 100,000,000 shares authorized; 49,227,000 and 49,821,000 shares issued                            | 4,927                    | 4,985                     |
| Treasury stock at cost, 513,000 shares   | (501)                    | (501)                     |
| Additional paid-in capital   | 157,866                  | 161,922                   |

Edgar Filing: ALLIANCE GAMING CORP - Form 10-Q

|   |                   |                   |
|---|-------------------|-------------------|
| Accumulated other comprehensive income (loss) | (19,364)          | (14,586)          |
| Accumulated deficit                           | (96,954)          | (66,063)          |
|   | <u>          </u> | <u>          </u> |
| Total stockholders' equity                    | 45,986            | 85,769            |
|   | <u>          </u> | <u>          </u> |
| Total liabilities and stockholders' equity    | \$459,880         | \$517,701         |
|   | <u>          </u> | <u>          </u> |

See notes to unaudited condensed consolidated financial statements.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In 000s, except per share data)

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2002</b>                         | <b>2003</b> |
| <b>Revenues:</b>   |                                     |             |
| Gaming equipment and systems                                     | \$ 57,729                           | \$ 82,341   |
| Wall machines and amusement games                                | 20,531                              | 18,974      |
| Route operations   | 57,781                              | 54,783      |
| Casino operations  | 19,001                              | 19,357      |
|  | 155,042                             | 175,455     |
| <b>Costs and expenses:</b>                                       |                                     |             |
| Cost of gaming equipment and systems                             | 24,279                              | 34,249      |
| Cost of wall machines and amusement games                        | 9,608                               | 9,427       |
| Cost of route operations   | 47,270                              | 45,806      |
| Cost of casino operations  | 8,104                               | 8,356       |
| Selling, general and administrative                              | 28,779                              | 35,356      |
| Research and development costs                                   | 4,227                               | 6,513       |
| Depreciation and amortization                                    | 8,070                               | 10,470      |
|  | 130,337                             | 150,177     |
| Operating income   | 24,705                              | 25,278      |
| <b>Other income (expense):</b>                                   |                                     |             |
| Interest income  | 282                                 | 293         |
| Interest expense   | (6,820)                             | (6,272)     |
| Minority interest  | (609)                               | (729)       |
| Other, net   | (757)                               | (217)       |
|  | 16,801                              | 18,353      |
| Income before income taxes                                       | 16,801                              | 18,353      |
| Income tax provision   | (902)                               | (5,573)     |
|  | \$ 15,899                           | \$ 12,780   |
| Net income   | \$ 15,899                           | \$ 12,780   |
| Basic earnings per share   | \$ 0.33                             | \$ 0.26     |
| Diluted earnings per share                                       | \$ 0.32                             | \$ 0.25     |
| Weighted average common shares outstanding                       | 48,118                              | 49,294      |
| Weighted average common and common share equivalents outstanding | 49,570                              | 50,162      |

See notes to unaudited condensed consolidated financial statements.



**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In 000s, except per share data)

|  | <b>Nine Months Ended March 31,<br/>2002</b> | <b>2003</b>    |
|--|---|----------------|
| <b>Revenues:</b>   |   |                |
| Gaming equipment and systems                                     | \$ 154,827                                  | \$ 232,507     |
| Wall machines and amusement games                                | 58,654                                      | 46,440         |
| Route operations   | 167,345                                     | 162,941        |
| Casino operations  | 54,787                                      | 53,925         |
|  | <u>435,613</u>                              | <u>495,813</u> |
| <b>Costs and expenses:</b>                                       |   |                |
| Cost of gaming equipment and systems                             | 66,674                                      | 100,170        |
| Cost of wall machines and amusement games                        | 30,221                                      | 25,406         |
| Cost of route operations   | 137,742                                     | 136,208        |
| Cost of casino operations  | 24,305                                      | 24,606         |
| Selling, general and administrative                              | 81,869                                      | 95,896         |
| Research and development costs                                   | 11,726                                      | 17,185         |
| Depreciation and amortization                                    | 23,110                                      | 27,390         |
|  | <u>375,647</u>                              | <u>426,861</u> |
| Operating income   | 59,966                                      | 68,952         |
| <b>Other income (expense):</b>                                   |   |                |
| Interest income  | 1,046                                       | 1,026          |
| Interest expense   | (21,500)                                    | (19,474)       |
| Minority interest  | (1,477)                                     | (1,483)        |
| Other, net   | (769)                                       | (20)           |
|  | <u>37,266</u>                               | <u>49,001</u>  |
| Income before income taxes                                       | 37,266                                      | 49,001         |
| Income tax provision   | (1,123)                                     | (18,110)       |
|  | <u>36,143</u>                               | <u>30,891</u>  |
| Net income   | \$ 36,143                                   | \$ 30,891      |
|  | <u>0.80</u>                                 | <u>0.64</u>    |
| Basic earnings per share   | \$ 0.80                                     | \$ 0.64        |
|  | <u>0.77</u>                                 | <u>0.62</u>    |
| Diluted earnings per share                                       | \$ 0.77                                     | \$ 0.62        |
|  | <u>45,060</u>                               | <u>48,567</u>  |
| Weighted average common shares outstanding                       | 45,060                                      | 48,567         |
|  | <u>46,904</u>                               | <u>49,581</u>  |
| Weighted average common and common share equivalents outstanding | 46,904                                      | 49,581         |

See notes to unaudited condensed consolidated financial statements.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
 Nine Months Ended March 31, 2003  
 (In 000s)

|   | Common Stock |         | Series E<br>Special<br>Stock | Treasury<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Losses | Accum.<br>Deficit | Total<br>Stock-<br>holders<br>Equity |
|---|--------------|---------|------------------------------|-------------------|----------------------------------|---|-------------------|--------------------------------------|
|   | Shares       | Dollars |                              |                   |                                  |   |                   |                                      |
| Balances at June 30, 2002                         | 49,227       | \$4,927 | \$ 12                        | \$(501)           | \$ 157,866                       | \$(19,364)                                      | \$(96,954)        | \$45,986                             |
| Net income  |              |         |                              |                   |                                  |   | 30,891            | 30,891                               |
| Foreign currency<br>translation adjustment        |              |         |                              |                   |                                  | 4,778   |                   | 4,778                                |
| Total comprehensive<br>income                     |              |         |                              |                   |                                  |   |                   | 35,669                               |
| Shares issued upon<br>exercise of options         | 594          | 58      |                              |                   | 1,903                            |   |                   | 1,961                                |
| Tax benefit of employee<br>stock option exercises |              |         |                              |                   | 2,153                            |   |                   | 2,153                                |
| Balances at March 31,<br>2003                     | 49,821       | \$4,985 | \$ 12                        | \$(501)           | \$ 161,922                       | \$(14,586)                                      | \$(66,063)        | \$85,769                             |

See notes to unaudited condensed consolidated financial statements.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In 000s)

|   | Nine Months Ended March 31,<br>2002 | 2003             |
|---|-------------------------------------|------------------|
| Cash flows from operating activities:   |                                     |                  |
| Net income  | \$ 36,143                           | \$ 30,891        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |                  |
| Depreciation and amortization   | 23,110                              | 27,390           |
| Provision for losses on receivables   | 3,266                               | 2,157            |
| Deferred income taxes   | (215)                               | 14,823           |
| Other   | 684                                 | 222              |
| Net change in operating assets and liabilities:                                   |                                     |                  |
| Accounts and notes receivable   | (12,393)                            | (39,528)         |
| Inventories   | (18,469)                            | (7,192)          |
| Other current assets  | 693                                 | 2,457            |
| Accounts payable  | (3,328)                             | 10,171           |
| Accrued liabilities   | 701                                 | (176)            |
|   | <u>30,192</u>                       | <u>41,215</u>    |
| Cash flows from investing activities:   |                                     |                  |
| Additions to property, plant and equipment  | (12,218)                            | (13,472)         |
| Additions to leased gaming equipment  | (12,498)                            | (14,794)         |
| Additions to other long-term assets   | (4,301)                             | (5,842)          |
| Acquisitions, net of cash acquired  | (15,333)                            | (3,038)          |
|   | <u>(44,350)</u>                     | <u>(37,146)</u>  |
| Cash flows from financing activities:   |                                     |                  |
| Reduction of long-term debt   | (1,376)                             | (3,596)          |
| Capitalized debt issuance costs   | (660)                               |                  |
| Net increase (decrease) in revolving credit facility                              |                                     |                  |
| Proceeds from exercise of stock options and warrants                              | 6,529                               | 1,961            |
|   | <u>4,493</u>                        | <u>(1,635)</u>   |
| Effect of exchange rate changes on cash   | 2,914                               | 905              |
| Cash and cash equivalents:  |                                     |                  |
| Increase (decrease) for period  | (6,751)                             | 3,339            |
| Balance, beginning of period  | 54,845                              | 62,508           |
|   | <u>\$ 48,094</u>                    | <u>\$ 65,847</u> |

See notes to unaudited condensed consolidated financial statements

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended March 31, 2002 and 2003**

**1. BASIS OF PRESENTATION**

*Principles of consolidation*

The accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, which management believes are necessary to present fairly the financial position, results of operations and cash flows of Alliance Gaming Corporation ( Alliance or the Company ) for the respective periods presented. The results of operations for an interim period are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes in the Company s annual report on Form 10-K for the year ended June 30, 2002. All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior year financial statements to conform to the current year presentation.

The accompanying consolidated financial statements include the accounts of Alliance Gaming Corporation, and its wholly owned and partially owned, controlled subsidiaries. In the case of Video Services, Inc. ( VSI ), the Company owns 100% of the voting stock. The Company is entitled to receive 71% of dividends declared by VSI, if any, at such time that dividends are declared.

The Company, through a wholly-owned subsidiary, is the general partner of Rainbow Casino Vicksburg Partnership, L.P. ( RCVP ), the limited partnership that operates the Rainbow Casino. The limited partner, Rainbow Corporation, an independent third party, is entitled to receive 10% of the net available cash flows after debt service and other items, as defined (which amount increases to 20% of such amount for the proportional revenues above \$35.0 million) each year through December 31, 2010. The Company holds the remaining economic interest in the partnership and consolidates the partnership with minority interest being reflected for the portion not owned.

On November 13, 2002, the Company announced the acquisition of Casino Management System Software Company (CMS), a leading supplier of software solutions focusing on player database management, player tracking and casino promotions. The \$6.5 million purchase, consisting of cash and a two-year note, was accounted for pursuant to the provisions of Statement of Financial Accounting Standards No.141 Business Combinations (SFAS No. 141). Certain pro forma disclosures for the CMS acquisition normally required under SFAS No. 141 have been omitted, as this acquisition did not exceed the materiality provisions contained therein. The allocation of the purchase price to the assets and liabilities acquired will be completed prior to June 30, 2003.

*Revenue recognition*

Revenue from sales of gaming machines and amusement games is generally recognized at the time products are shipped and title has passed to the customer. The Company sells gaming equipment on normal credit terms (generally 2%, net 30) and also offers financing to qualified customers for periods generally between 6 and 48 months.

Revenue from sales of computerized monitoring systems is recognized in accordance with the AICPA s Statement of Position 97-2 (SOP 97-2) Software Revenue Recognition. In accordance with the provisions of SOP 97-2, the contracts for the sales of computerized monitoring units are considered to have multiple elements because they include hardware, software, installation supervision, training, and post-contract customer support. Accordingly, revenues from the sale of systems are deferred and begin to be recognized at the point when the system is deemed to be functionally operational, and the residual method is used to recognize revenue for the remaining elements as they are delivered, each having vendor-specific objective evidence of relative sales values. Post-contract customer support revenues are recognized over the period of the support agreement (generally one year).

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended March 31, 2002 and 2003**

Our Bally Gaming and Systems business unit earns revenues from recurring revenue sources that consist of the operations of the wide-area progressive jackpot systems and revenues from gaming machines placed in a casino on a daily lease or rental basis. Revenue from these sources is recognized based on the contractual terms of the participation or rental agreements and is generally based on a share of money wagered, a share of the net winnings, or on a fixed daily rental rate basis.

In accordance with industry practice, we recognize gaming revenues in our route and casino operations as the net win from gaming machine operations, which is the difference between coins and currency deposited into the machines and payments to customers and, for other games, the difference between gaming wins and losses. We recognize total net win from gaming machines as revenues for route operations which we operate pursuant to revenue-sharing arrangements and revenue-sharing payments (either fixed or variable) as a cost of route operations.

The Company constantly monitors its exposure for credit losses and maintains allowances for anticipated losses.

**2. INVENTORIES**

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market. Cost elements included for work-in-process and finished goods include raw materials, freight, direct labor and manufacturing overhead.

Inventories, net of reserves, consist of the following (in 000s):

|                   | <b>June 30,<br/>2002</b> | <b>March 31,<br/>2003</b> |
|-------------------|--------------------------|---------------------------|
| Raw materials     | \$ 17,158                | \$ 17,557                 |
| Work-in-process   | 936                      | 4,014                     |
| Finished goods    | 24,903                   | 21,394                    |
|                   | <u>          </u>        | <u>          </u>         |
| Total inventories | \$ 42,997                | \$ 42,965                 |
|                   | <u>          </u>        | <u>          </u>         |

**3. DEBT**

Long-term debt consists of the following (in 000s):

|  | <b>June 30,<br/>2002</b> | <b>March 31,<br/>2003</b> |
|--|--------------------------|---------------------------|
| Term loan facility   | \$ 189,525               | \$ 188,100                |
| 10% Senior Subordinated Notes due 2007, net of unamortized discount of \$416 and \$357 | 149,584                  | 149,643                   |
| Other subordinated debt  | 2,495                    | 995                       |
| Other  | 660                      | 11,595                    |
|  | <u>          </u>        | <u>          </u>         |
|  | 342,264                  | 350,333                   |
| Less current maturities  | 4,116                    | 4,425                     |
|  | <u>          </u>        | <u>          </u>         |
| Long-term debt, less current maturities  | \$ 338,148               | \$ 345,908                |
|  | <u>          </u>        | <u>          </u>         |

The Company's debt structure consists primarily of a \$190.0 million term loan facility and a \$24.3 million revolving credit facility (which can be increased by \$15 million at the Company's discretion) (collectively referred to herein as the bank facility) and \$150 million Senior Subordinated Notes. The term loan has an interest rate of LIBOR plus 3.25% (or 4.7% as of March 31, 2003), has a 1% per year

## Edgar Filing: ALLIANCE GAMING CORP - Form 10-Q

mandatory principal amortization, and matures on December 31, 2006. The revolving credit facility commitment decreases ratably over its 5-year commitment, which ends on June 30, 2005. As of March 31, 2003, there were no borrowings outstanding on the revolving credit facility. The bank facility contains certain customary financial and operational covenants.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended March 31, 2002 and 2003**

The bank facility is collateralized by substantially all domestic property and is guaranteed by each domestic subsidiary of the U.S. Borrower and German Subsidiaries (both as defined in the credit agreement), other than the entity that holds the Company's interest in its Louisiana and Mississippi operations, and is secured by both a U.S. and German Pledge Agreement (both as defined). The bank facility contains a number of maintenance covenants and other significant covenants that, among other things, restrict the ability of the Company and the ability of certain of its subsidiaries to dispose of assets, incur additional indebtedness, pay dividends or make other distributions, enter into certain acquisitions, repurchase equity interests or subordinated indebtedness, issue or sell equity interests of the Company's subsidiaries, engage in mergers or acquisitions, or engage in certain transactions with subsidiaries and affiliates, and that otherwise restrict corporate activities. As of March 31, 2003, we are in compliance with these covenants.

The Senior Subordinated Notes bear interest at 10%, are due in 2007, and are general unsecured obligations of the Company, ranking subordinate in right of payment to all Senior Debt (as defined) of the Company, including indebtedness under the bank facility. The Senior Subordinated Notes are fully and unconditionally guaranteed on a joint and several senior subordinated basis by all existing and future domestic Restricted Subsidiaries of the Company, subject to certain exceptions including the partially-owned entities through which its Mississippi casino and Louisiana route operations are conducted. The Subsidiary Guarantees are general unsecured obligations of the Guarantors, ranking subordinate in right of payment to all Senior Debt of the Guarantors. The Company will be able to designate other current or future subsidiaries as Unrestricted Subsidiaries under certain circumstances. Unrestricted Subsidiaries will not be required to issue a Subsidiary Guarantee and will not be subject to many of the restrictive covenants set forth in the Indenture pursuant to which the Senior Subordinated Notes were issued. The Indenture for the Company's Senior Subordinated Notes contains various covenants, including limitations on incurrence of additional indebtedness, on restricted payments and on dividend and payment restrictions on subsidiaries. The Senior Subordinated Notes may be redeemed beginning in August 2002 at 105%, which decreases ratably over the remaining term. Upon the occurrence of a Change of Control (as defined), the holders of the Senior Subordinated Notes will have the right to require the Company to purchase their notes at a price equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest to the date of purchase. As of March 31, 2003, we are also in compliance with the covenants contained in the Indenture for the Senior Subordinated Notes.

**4. INCOME TAXES**

The Company has significant deferred tax assets, which consist primarily of net operating loss carry forwards and other temporary differences. Management conducts periodic recoverability assessments of these deferred tax assets, which includes evaluating both positive and negative evidential matter to determine if it is more likely than not that the deferred tax assets will be realizable. On June 30, 2002, management conducted a recoverability assessment and determined that \$37 million in previously reserved deferred tax assets were realizable due to the Company's profitable operating results in 2001 and 2002 and projected future taxable income. Until the fourth quarter of fiscal year 2002, management did not believe sufficient evidence existed that it was more likely than not that such profitable operating results would allow such deferred tax assets to be realized.

Beginning July 1, 2002, the Company began recognizing Federal income tax expense based on 35% of pre-tax domestic income and state income taxes at a rate of approximately 2% of domestic income. The income generated in Germany was offset against German NOLs. For the prior year quarter ended March 31, 2002, substantially all of the Company's taxable income was offset against Federal net operating loss carry forwards, which reduced the Company's tax expense for the quarter ended March 31, 2002, from approximately \$5.7 million to approximately \$902,000.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended March 31, 2002 and 2003**

**5. STOCK-BASED COMPENSATION**

The Company accounts for its stock-based employee compensation awards in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ). Under APB 25, because the exercise price of the Company's employee stock options equals or exceeds the market price on date of grant, no compensation expense is recognized.

In 1998, the Company adopted FASB No. 123 Accounting for Stock-Based Compensation ( FASB No. 123 ). Under FASB No. 123 companies may continue to account for employee stock-based compensation under APB 25, but are required to disclose historical and pro forma net income and earnings per share that would have resulted from the use of the fair value method described in FASB No. 123. In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation-Transition and Disclosure . This Statement amends FASB Statement No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 and APB Opinion No. 28 Interim Financial Reporting to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Under fair value method, compensation costs are measured using an options pricing model and amortized over the life of the option, which is generally three to ten years, with option forfeitures accounted for at the time of the forfeiture, and all amounts reflected net of tax. The historical and pro forma net income (assuming an after-tax charge for stock-based compensation) and related per share data are as follows (in 000s, except per share data):

|   | Three Months Ended<br>March 31, |           | Nine Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|--------------------------------|-----------|
|   | 2002                            | 2003      | 2002                           | 2003      |
| <b>Net Income:</b>                          |                                 |           |                                |           |
| As reported                                 | \$ 15,899                       | \$ 12,780 | \$ 36,143                      | \$ 30,891 |
| Stock-based compensation under FASB No. 123 | 753                             | 308       | 2,259                          | 2,570     |
| Pro forma                                   | \$ 15,146                       | \$ 12,472 | \$ 33,884                      | \$ 28,321 |
| <b>Earnings per diluted share:</b>          |                                 |           |                                |           |
| Diluted                                     | \$ 0.32                         | \$ 0.25   | \$ 0.77                        | \$ 0.62   |
| Pro forma diluted                           | \$ 0.31                         | \$ 0.25   | \$ 0.72                        | \$ 0.57   |

On the date of grant using the Black-Scholes option-pricing model the following assumptions were used to value the options in the periods indicated:

|  | Three Months Ended<br>March 31, |            | Nine Months Ended<br>March 31, |            |
|--|---------------------------------|------------|--------------------------------|------------|
|  | 2002                            | 2003       | 2002                           | 2003       |
| Per share weighted-average fair value of stock options granted | \$5.72                          | \$2.31     | \$5.72                         | \$2.69     |
| Risk-free interest rate  | 3.5%                            | 3.5%       | 3.5%                           | 3.5%       |
| Expected volatility  | 0.70                            | 0.28       | 0.70                           | 0.28       |
| Expected dividend yield  | 0                               | 0          | 0                              | 0          |
| Expected life  | 3-10 years                      | 3-10 years | 3-10 years                     | 3-10 years |



**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended March 31, 2002 and 2003**

**6. EARNINGS PER SHARE**

The computation of basic and diluted earnings per share is as follows (in 000s except per share amounts):

|   | Three months ended<br>March 31, |           | Nine months ended<br>March 31, |           |
|---|---------------------------------|-----------|--------------------------------|-----------|
|   | 2002                            | 2003      | 2002                           | 2003      |
| Net income  | \$ 15,899                       | \$ 12,780 | \$ 36,143                      | \$ 30,891 |
| Weighted average common shares outstanding                        | 48,118                          | 49,294    | 45,060                         | 48,567    |
| Effect of stock options outstanding                               | 1,448                           | 866       | 1,326                          | 1,012     |
| Effect of warrants outstanding                                    | 2                               |           | 516                            |           |
| Effect of Series E Special Stock                                  | 2                               | 2         | 2                              | 2         |
| Weighted average common and potential dilutive shares outstanding | 49,570                          | 50,162    | 46,904                         | 49,581    |
| Basic earnings per share  | \$ 0.33                         | \$ 0.26   | \$ 0.80                        | \$ 0.64   |
| Diluted earnings per share  | \$ 0.32                         | \$ 0.25   | \$ 0.77                        | \$ 0.62   |

Stock options outstanding that were potentially convertible into approximately 700,000 common shares as of March 31, 2003, were not included in the computation of diluted EPS because the exercise price was greater than the average market price of the common shares during the period.

**7. SEGMENT AND GEOGRAPHICAL INFORMATION**

The Company operates in four business segments: (i) Gaming Equipment and Systems designs, manufactures and distributes gaming machines and computerized monitoring systems for gaming machines; (ii) Wall Machines and Amusement Games designs, manufactures and distributes wall-mounted gaming machines and distributes third party manufactured amusement games; (iii) Route Operations owns and manages a significant installed base of gaming machines; and (iv) Casino Operations owns and operates two regional casinos. The accounting policies of these segments are consistent with Company's policies for the Consolidated Financial Statements.

The tables below present information as to the Company's revenues, intersegment revenues and operating income (in 000s):

|                                   | Three Months Ended<br>March 31, |            | Nine Months Ended<br>March 31, |            |
|-----------------------------------|---------------------------------|------------|--------------------------------|------------|
|                                   | 2002                            | 2003       | 2002                           | 2003       |
| <b>Revenues:</b>                  |                                 |            |                                |            |
| Gaming equipment and systems      | \$ 57,729                       | \$ 82,341  | \$ 154,827                     | \$ 232,507 |
| Wall machines and amusement games | 20,531                          | 18,974     | 58,654                         | 46,440     |
| Route operations                  | 57,781                          | 54,783     | 167,345                        | 162,941    |
| Casino operations                 | 19,001                          | 19,357     | 54,787                         | 53,925     |
| Total revenues                    | \$ 155,042                      | \$ 175,455 | \$ 435,613                     | \$ 495,813 |
| <b>Intersegment revenues:</b>     |                                 |            |                                |            |
| Gaming equipment and systems      | \$ 613                          | \$ 272     | \$ 1,679                       | \$ 2,538   |
| Wall machines and amusement games |                                 |            |                                |            |
| Route operations                  |                                 |            |                                |            |
| Casino operations                 |                                 |            |                                |            |

Edgar Filing: ALLIANCE GAMING CORP - Form 10-Q

|                             |               |               |                 |                 |
|-----------------------------|---------------|---------------|-----------------|-----------------|
| Total intersegment revenues | <u>\$ 613</u> | <u>\$ 272</u> | <u>\$ 1,679</u> | <u>\$ 2,538</u> |
|-----------------------------|---------------|---------------|-----------------|-----------------|

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended March 31, 2002 and 2003**

|                                   | Three Months Ended<br>March 31, |                  | Nine Months Ended<br>March 31, |                  |
|-----------------------------------|---------------------------------|------------------|--------------------------------|------------------|
|                                   | 2002                            | 2003             | 2002                           | 2003             |
| Operating income:                 |                                 |                  |                                |                  |
| Gaming equipment and systems      | \$ 13,638                       | \$ 19,056        | \$ 33,577                      | \$ 55,966        |
| Wall machines and amusement games | 3,207                           | 1,975            | 6,340                          | 714              |
| Route operations                  | 4,648                           | 1,563            | 11,792                         | 6,696            |
| Casino operations                 | 6,435                           | 6,180            | 17,586                         | 15,016           |
| Corporate                         | (3,223)                         | (3,496)          | (9,329)                        | (9,440)          |
| <b>Total operating income</b>     | <b>\$ 24,705</b>                | <b>\$ 25,278</b> | <b>\$ 59,966</b>               | <b>\$ 68,952</b> |

The Company has operations based primarily in the United States and Germany. The German operation's customers are a diverse group of operators of wall machines and amusement games at arcades, hotels, restaurants and taverns, primarily in Germany. Gaming Equipment and Systems' customers are primarily casinos and gaming machine distributors in the United States and abroad. Receivables of the German operations and Gaming Equipment and Systems are generally collateralized by the related equipment.

The table below presents information as to the Company's revenues and operating income by geographic region (in 000s):

|                               | Three Months Ended<br>March 31, |                   | Nine Months Ended<br>March 31, |                  |
|-------------------------------|---------------------------------|-------------------|--------------------------------|------------------|
|                               | 2002                            | 2003              | 2002                           | 2003             |
| Revenues:                     |                                 |                   |                                |                  |
| United States                 | \$ 129,438                      | \$ 145,455        | \$ 359,865                     | \$ 420,381       |
| Germany                       | 24,410                          | 26,283            | 69,267                         | 68,166           |
| Other foreign                 | 1,194                           | 3,717             | 6,481                          | 7,266            |
| <b>Total revenues</b>         | <b>\$ 155,042</b>               | <b>\$ 175,455</b> | <b>\$ 435,613</b>              | <b>495,813</b>   |
| Operating income:             |                                 |                   |                                |                  |
| United States                 | \$ 20,491                       | \$ 22,489         | \$ 49,854                      | \$ 65,839        |
| Germany                       | 3,965                           | 2,510             | 8,397                          | 2,816            |
| Other foreign                 | 249                             | 279               | 1,715                          | 297              |
| <b>Total operating income</b> | <b>\$ 24,705</b>                | <b>\$ 25,278</b>  | <b>\$ 59,966</b>               | <b>\$ 68,952</b> |

**8. SUPPLEMENTAL CASH FLOW INFORMATION**

The following supplemental information is related to the unaudited condensed consolidated statements of cash flows (in 000s).

|                        | Nine months ended March 31, |           |
|------------------------|-----------------------------|-----------|
|                        | 2002                        | 2003      |
| Interest expense paid  | \$ 23,922                   | \$ 23,126 |
| Income taxes paid      | 605                         | 1,643     |
| Non-cash transactions: |                             |           |

Edgar Filing: ALLIANCE GAMING CORP - Form 10-Q

|   |          |          |
|---|----------|----------|
| Reclassify inventory to property, plant and equipment | \$ 4,649 | \$ 7,887 |
| (Favorable) unfavorable translation rate adjustment   | 1,429    | (3,873)  |
| Notes payable issued in acquisitions                  | 4,000    | 11,606   |

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Nine Months Ended March 31, 2002 and 2003**

**9. UNAUDITED CONSOLIDATING FINANCIAL STATEMENTS**

The following unaudited condensed consolidating financial statements are presented to provide certain financial information regarding guaranteeing and non-guaranteeing subsidiaries in relation to the Company's Senior Subordinated Notes (see note 3). The financial information presented includes Alliance Gaming Corporation (the Parent), its wholly-owned guaranteeing subsidiaries (Guaranteeing Subsidiaries), and the non-guaranteeing subsidiaries, Video Services, Inc., United Gaming Rainbow, BGI Australia Pty. Limited, Bally Gaming de Puerto Rico, Inc., Bally Gaming GmbH, and Alliance Automaten GmbH & Co. KG (the subsidiary that holds the Company's German interests) (together the Non-Guaranteeing Subsidiaries). The notes to consolidating financial statements should be read in conjunction with these consolidating financial statements.

14

---

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATING BALANCE SHEETS**

June 30, 2002

(In 000s)

|   | Parent            | Guaranteeing<br>Subsidiaries | Non-<br>Guaranteeing<br>Subsidiaries | Reclas-<br>sifications<br>and<br>Elimina-<br>tions | Alliance<br>Gaming<br>Corporation<br>and<br>Subsidiaries |
|---|-------------------|------------------------------|--------------------------------------|--|--|
| <b>ASSETS</b>                                 |                   |                              |                                      |  |  |
| Current assets:                               |                   |                              |                                      |  |  |
| Cash and cash equivalents                     | \$ 8,121          | \$ 38,362                    | \$ 16,025                            | \$   | \$ 62,508  |
| Short-term investments (restricted)           |                   | 896                          |                                      |  | 896  |
| Accounts and short-term notes receivable, net | 13,860            | 52,838                       | 43,956                               | (13,822)   | 96,832   |
| Inventories, net                              |                   | 28,469                       | 14,738                               | (210)  | 42,997   |
| Deferred tax assets, net                      | 16,489            | 11,097                       | 19                                   |  | 27,605   |
| Other current assets                          | 260               | 12,307                       | 1,408                                |  | 13,975   |
|   | <u>38,730</u>     | <u>143,969</u>               | <u>76,146</u>                        | <u>(14,032)</u>                                    | <u>244,813</u>   |
| Total current assets                          | 38,730            | 143,969                      | 76,146                               | (14,032)   | 244,813  |
| Long-term notes receivable, net               | 147,595           | 60,912                       | 408                                  | (206,526)  | 2,389  |
| Leased equipment, net                         |                   | 19,560                       |                                      |  | 19,560   |
| Property, plant and equipment, net            | 129               | 57,368                       | 32,817                               |  | 90,314   |
| Goodwill, net                                 | (4,842)           | 48,232                       | 4,323                                |  | 47,713   |
| Intangible assets, net                        | 9,033             | 23,478                       | 1                                    |  | 32,512   |
| Investment in subsidiaries                    | 335,739           | 81,855                       |                                      | (417,594)  |  |
| Deferred tax assets, net                      | 22,394            |                              | 751                                  | (4,905)  | 18,240   |
| Other assets, net                             | (145,694)         | 154,180                      | (4,131)                              | (16)   | 4,339  |
|   | <u>\$ 403,084</u> | <u>\$ 589,554</u>            | <u>\$ 110,315</u>                    | <u>\$ (643,073)</u>                                | <u>\$ 459,880</u>  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>    |                   |                              |                                      |  |  |
| Current liabilities:                          |                   |                              |                                      |  |  |
| Accounts payable                              | \$ 135            | \$ 13,398                    | \$ 2,361                             | \$   | \$ 15,894  |
| Accrued liabilities                           | 11,506            | 22,333                       | 13,033                               | (1,031)  | 45,841   |
| Jackpot liabilities                           |                   | 5,812                        | 103                                  |  | 5,915  |
| Current maturities of long-term debt          | 3,900             | 79                           | 12,952                               | (12,815)   | 4,116  |
|   | <u>15,541</u>     | <u>41,622</u>                | <u>28,449</u>                        | <u>(13,846)</u>                                    | <u>71,766</u>  |
| Total current liabilities                     | 15,541            | 41,622                       | 28,449                               | (13,846)   | 71,766   |
| Long term debt, net                           | 337,704           | 206,698                      | 12                                   | (206,266)  | 338,148  |
| Deferred tax liabilities, net                 |                   | 4,905                        |                                      | (4,905)  |  |
| Other liabilities                             | 2,620             | 127                          |                                      |  | 2,747  |
|   | <u>355,865</u>    | <u>253,352</u>               | <u>28,461</u>                        | <u>(225,017)</u>                                   | <u>412,661</u>   |
| Total liabilities                             | 355,865           | 253,352                      | 28,461                               | (225,017)  | 412,661  |
| Minority interest                             | 1,233             |                              |                                      |  | 1,233  |
| Commitments and contingencies                 |                   |                              |                                      |  |  |
| Stockholders equity:                          |                   |                              |                                      |  |  |
| Series E Special Stock                        | 12                |                              |                                      |  | 12   |
| Common Stock                                  | 4,927             | 478                          | 17,832                               | (18,310)   | 4,927  |

Edgar Filing: ALLIANCE GAMING CORP - Form 10-Q

|   |                   |                   |                   |                     |                   |
|---|-------------------|-------------------|-------------------|---------------------|-------------------|
| Treasury stock                              | (501)             |                   |                   |                     | (501)             |
| Additional paid-in capital                  | 157,866           | 190,449           | 70,382            | (260,831)           | 157,866           |
| Accum. other comprehensive income<br>(loss) | (19,364)          | (19,361)          | (19,384)          | 38,745              | (19,364)          |
| Retained earnings (accumulated deficit)     | (96,954)          | 164,636           | 13,024            | (177,660)           | (96,954)          |
|   | <u>45,986</u>     | <u>336,202</u>    | <u>81,854</u>     | <u>(418,056)</u>    | <u>45,986</u>     |
| Total stockholders' equity                  | <u>\$ 403,084</u> | <u>\$ 589,554</u> | <u>\$ 110,315</u> | <u>\$ (643,073)</u> | <u>\$ 459,880</u> |

See accompanying unaudited note.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATING BALANCE SHEETS**

March 31, 2003

(In 000s)

|  | Parent            | Guaranteeing<br>Subsidiaries | Non-<br>Guaranteeing<br>Subsidiaries | Reclas-<br>sifications<br>and<br>Elimina-<br>tions | Alliance<br>Gaming<br>Corporation<br>and<br>Subsidiaries |
|--|-------------------|------------------------------|--------------------------------------|--|--|
| <b>ASSETS</b>                                    |                   |                              |                                      |  |  |
| Current assets:                                  |                   |                              |                                      |  |  |
| Cash and cash equivalents                        | \$ 13,808         | \$ 34,150                    | \$ 17,889                            | \$   | \$ 65,847  |
| Short term investments (restricted)              |                   | 854                          |                                      |  | 854  |
| Accounts and short-term notes<br>receivable, net | 8,801             | 71,713                       | 51,474                               | (8,798)  | 123,190  |
| Inventories, net                                 |                   | 31,116                       | 11,945                               | (96)   | 42,965   |
| Deferred tax assets                              | 16,490            | 11,097                       | 19                                   |  | 27,606   |
| Other current assets                             | 506               | 13,465                       | 1,259                                |  | 15,230   |
| <b>Total current assets</b>                      | <b>39,605</b>     | <b>162,395</b>               | <b>82,586</b>                        | <b>(8,894)</b>                                     | <b>275,692</b>   |
| Long-term notes receivable, net                  | 156,691           | 83,634                       | 199                                  | (223,018)  | 17,506   |
| Leased equipment, net                            |                   | 23,332                       | 7,064                                |  | 30,396   |
| Property, plant and equipment, net               | 83                | 55,366                       | 35,962                               |  | 91,411   |
| Goodwill, net                                    | (4,706)           | 53,509                       | 4,781                                |  | 53,584   |
| Intangible assets, net                           | 7,635             | 33,892                       | 112                                  |  | 41,639   |
| Investment in subsidiaries                       | 396,577           | 91,932                       |                                      | (488,509)  |  |
| Deferred tax assets, net                         | 7,354             |                              | 832                                  | (4,770)  | 3,416  |
| Other assets, net                                | (170,958)         | 190,083                      | (15,058)                             | (10)   | 4,057  |
|  | <b>\$ 432,281</b> | <b>\$ 694,143</b>            | <b>\$ 116,478</b>                    | <b>\$ (725,201)</b>                                | <b>\$ 517,701</b>  |
| <b>LIABILITIES AND STOCKHOLDERS</b>              |                   |                              |                                      |  |  |
| <b>EQUITY</b>                                    |                   |                              |                                      |  |  |
| Current liabilities:                             |                   |                              |                                      |  |  |
| Accounts payable                                 | \$ 552            | \$ 21,096                    | \$ 2,316                             | \$   | \$ 23,964  |
| Accrued liabilities                              | 3,174             | 27,890                       | 14,729                               | (1,458)  | 44,335   |
| Jackpot liabilities                              |                   | 8,173                        | 128                                  |  | 8,301  |
| Current maturities of long-term debt             | 2,895             | 1,519                        | 7,370                                | (7,359)  | 4,425  |
| <b>Total current liabilities</b>                 | <b>6,621</b>      | <b>58,678</b>                | <b>24,543</b>                        | <b>(8,817)</b>                                     | <b>81,025</b>  |
| Long term debt, net                              | 335,843           | 232,820                      | 3                                    | (222,758)  | 345,908  |
| Deferred tax liabilities, net                    |                   | 4,770                        |                                      | (4,770)  |  |
| Other liabilities                                | 2,624             | 951                          |                                      |  | 3,575  |
| <b>Total liabilities</b>                         | <b>345,088</b>    | <b>297,219</b>               | <b>24,546</b>                        | <b>(236,345)</b>                                   | <b>430,508</b>   |
| Minority interest                                | 1,424             |                              |                                      |  | 1,424  |
| Commitments and contingencies                    |                   |                              |                                      |  |  |
| Stockholders' equity:                            |                   |                              |                                      |  |  |
| Series E Special Stock                           | 12                |                              |                                      |  | 12   |



Edgar Filing: ALLIANCE GAMING CORP - Form 10-Q

|  |                   |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Common Stock                             | 4,985             | 478               | 17,832            | (18,310)          | 4,985             |
| Treasury stock                           | (501)             |                   |                   |                   | (501)             |
| Additional paid-in capital               | 161,922           | 190,449           | 70,418            | (260,867)         | 161,922           |
| Accum. other comprehensive income (loss) | (14,586)          | (14,583)          | (14,606)          | 29,189            | (14,586)          |
| Retained earnings (accumulated deficit)  | (66,063)          | 220,580           | 18,288            | (238,868)         | (66,063)          |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total stockholders equity                | 85,769            | 396,924           | 91,932            | (488,856)         | 85,769            |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
|  | \$ 432,281        | \$ 694,143        | \$ 116,478        | \$ (725,201)      | \$ 517,701        |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

See accompanying unaudited note.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATING STATEMENTS OF OPERATIONS**

Three Months Ended March 31, 2002

(In 000s)

|   | <u>Parent</u> | <u>Guaranteeing<br/>Subsidiaries</u> | <u>Non-<br/>Guaranteeing<br/>Subsidiaries</u> | <u>Elimina-<br/>tions</u> | <u>Alliance<br/>Gaming<br/>Corporation<br/>and<br/>Subsidiaries</u> |
|---|---------------|--------------------------------------|---|---------------------------|---|
| <b>Revenues:</b>                          |               |                                      |   |                           |   |
| Gaming equipment and systems              | \$            | \$ 56,155                            | \$ 5,088                                      | \$ (3,514)                | \$ 57,729   |
| Wall machines and amusement games         |               |                                      | 20,531  |                           | 20,531  |
| Route operations                          |               | 53,581                               | 4,200   |                           | 57,781  |
| Casino operations                         |               | 5,714                                | 15,637  | (2,350)                   | 19,001  |
|   |               | <u>115,450</u>                       | <u>45,456</u>                                 | <u>(5,864)</u>            | <u>155,042</u>  |
| <b>Costs and expenses:</b>                |               |                                      |   |                           |   |
| Cost of gaming equipment and systems      |               | 24,907                               | 2,871   | (3,499)                   | 24,279  |
| Cost of wall machines and amusement games |               |                                      | 9,608   |                           | 9,608   |
| Cost of route operations                  |               | 44,550                               | 2,720   |                           | 47,270  |
| Cost of casino operations                 |               | 2,843                                | 5,261   |                           | 8,104   |
| Selling, general and administrative       | 2,674         | 15,947                               | 12,523  | (2,365)                   | 28,779  |
| Research and development costs            |               | 3,588                                | 639   |                           | 4,227   |
| Depreciation and amortization             | 549           | 5,968                                | 1,743   | (190)                     | 8,070   |
|   |               | <u>3,223</u>                         | <u>97,803</u>                                 | <u>(6,054)</u>            | <u>130,337</u>  |
| Operating income (loss)                   | (3,223)       | 17,647                               | 10,091  | 190                       | 24,705  |
| Earnings in consolidated subsidiaries     | 21,669        | 7,119                                |   | (28,788)                  |   |
| <b>Other income (expense):</b>            |               |                                      |   |                           |   |
| Interest income                           | 3,084         | 1,439                                | 191   | (4,432)                   | 282   |
| Interest expense                          | (6,802)       | (4,154)                              | (296)   | 4,432                     | (6,820)   |
| Rainbow royalty                           | 1,739         |                                      | (1,739)                                       |                           |   |
| Minority interest                         | (609)         |                                      |   |                           | (609)   |
| Other, net                                | (155)         | (239)                                | (363)   |                           | (757)   |
|   |               | <u>15,703</u>                        | <u>21,812</u>                                 | <u>(28,598)</u>           | <u>16,801</u>   |
| Income before income taxes                | 15,703        | 21,812                               | 7,884   | (28,598)                  | 16,801  |
| Income tax provision                      | 196           | (333)                                | (765)   |                           | (902)   |
|   |               | <u>\$ 15,899</u>                     | <u>\$ 21,479</u>                              | <u>\$ (28,598)</u>        | <u>\$ 15,899</u>  |
| Net income                                | \$ 15,899     | \$ 21,479                            | \$ 7,119                                      | \$(28,598)                | \$ 15,899   |

See accompanying unaudited note.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATING STATEMENTS OF OPERATIONS**

Three Months Ended March 31, 2003

(In 000s)

|   | Parent    | Guaranteeing<br>Subsidiaries | Non-<br>Guaranteeing<br>Subsidiaries | Elimina-<br>tions | Alliance<br>Gaming<br>Corporation<br>and<br>Subsidiaries |
|---|-----------|------------------------------|--------------------------------------|-------------------|--|
| <b>Revenues:</b>                          |           |                              |                                      |                   |  |
| Gaming equipment and systems              | \$        | \$ 80,227                    | \$ 11,044                            | \$ (8,930)        | \$ 82,341  |
| Wall machines and amusement games         |           |                              | 18,974                               |                   | 18,974   |
| Route operations                          |           | 50,873                       | 3,910                                |                   | 54,783   |
| Casino operations                         |           | 6,119                        | 15,545                               | (2,307)           | 19,357   |
|   |           | 137,219                      | 49,473                               | (11,237)          | 175,455  |
| <b>Costs and expenses:</b>                |           |                              |                                      |                   |  |
| Cost of gaming equipment and systems      |           | 35,554                       | 7,746                                | (9,051)           | 34,249   |
| Cost of wall machines and amusement games |           |                              | 9,427                                |                   | 9,427  |
| Cost of route operations                  |           | 43,192                       | 2,614                                |                   | 45,806   |
| Cost of casino operations                 |           | 2,825                        | 5,531                                |                   | 8,356  |
| Selling, general and administrative       | 2,896     | 22,360                       | 12,425                               | (2,325)           | 35,356   |
| Research and development costs            |           | 4,436                        | 2,077                                |                   | 6,513  |
| Depreciation and amortization             | 600       | 8,449                        | 1,421                                |                   | 10,470   |
|   | 3,496     | 116,816                      | 41,241                               | (11,376)          | 150,177  |
| Operating income (loss)                   | (3,496)   | 20,403                       | 8,232                                | 139               | 25,278   |
| Earnings in consolidated subsidiaries     | 23,320    | 5,894                        |                                      | (29,214)          |  |
| <b>Other income (expense):</b>            |           |                              |                                      |                   |  |
| Interest income                           | 3,233     | 1,762                        | 232                                  | (4,934)           | 293  |
| Interest expense                          | (6,220)   | (4,800)                      | (186)                                | 4,934             | (6,272)  |
| Rainbow royalty                           | 1,742     |                              | (1,742)                              |                   |  |
| Minority interest                         | (729)     |                              |                                      |                   | (729)  |
| Other, net                                | 433       | (421)                        | (229)                                |                   | (217)  |
| Income before income taxes                | 18,283    | 22,838                       | 6,307                                | (29,075)          | 18,353   |
| Income tax provision                      | (5,503)   | 343                          | (413)                                |                   | (5,573)  |
| Net income                                | \$ 12,780 | \$ 23,181                    | \$ 5,894                             | \$ (29,075)       | \$ 12,780  |

See accompanying unaudited note.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATING STATEMENTS OF OPERATIONS**

Nine Months Ended March 31, 2002

(In 000s)

|   | Parent    | Guaranteeing<br>Subsidiaries | Non-<br>Guaranteeing<br>Subsidiaries | Elimina-<br>tions  | Alliance<br>Gaming<br>Corporation<br>and<br>Subsidiaries |
|---|-----------|------------------------------|--------------------------------------|--------------------|--|
| <b>Revenues:</b>                          |           |                              |                                      |                    |  |
| Gaming equipment and systems              | \$        | \$ 149,488                   | \$ 17,139                            | \$(11,800)         | \$ 154,827   |
| Wall machines and amusement games         |           |                              | 58,654                               |                    | 58,654   |
| Route operations                          |           | 156,135                      | 11,210                               |                    | 167,345  |
| Casino operations                         |           | 16,747                       | 44,613                               | (6,573)            | 54,787   |
|   |           | <u>322,370</u>               | <u>131,616</u>                       | <u>(18,373)</u>    | <u>435,613</u>   |
| <b>Costs and expenses:</b>                |           |                              |                                      |                    |  |
| Cost of gaming equipment and systems      |           | 68,033                       | 10,396                               | (11,755)           | 66,674   |
| Cost of wall machines and amusement games |           |                              | 30,221                               |                    | 30,221   |
| Cost of route operations                  |           | 130,422                      | 7,320                                |                    | 137,742  |
| Cost of casino operations                 |           | 8,397                        | 15,908                               |                    | 24,305   |
| Selling, general and administrative       | 7,676     | 45,734                       | 35,077                               | (6,618)            | 81,869   |
| Research and development costs            |           | 9,800                        | 1,926                                |                    | 11,726   |
| Depreciation and amortization             | 1,653     | 16,873                       | 5,153                                | (569)              | 23,110   |
|   |           | <u>9,329</u>                 | <u>279,259</u>                       | <u>(18,942)</u>    | <u>375,647</u>   |
| Operating income (loss)                   | (9,329)   | 43,111                       | 25,615                               | 569                | 59,966   |
| Earnings in consolidated subsidiaries     | 52,864    | 18,189                       |                                      | (71,053)           |  |
| <b>Other income (expense):</b>            |           |                              |                                      |                    |  |
| Interest income                           | 9,134     | 4,382                        | 650                                  | (13,120)           | 1,046  |
| Interest expense                          | (21,445)  | (12,218)                     | (957)                                | 13,120             | (21,500)   |
| Rainbow royalty                           | 4,974     |                              | (4,974)                              |                    |  |
| Minority interest                         | (1,477)   |                              |                                      |                    | (1,477)  |
| Other, net                                | 1,091     | (791)                        | (1,069)                              |                    | (769)  |
|   |           | <u>35,812</u>                | <u>52,673</u>                        | <u>(70,484)</u>    | <u>37,266</u>  |
| Income before income taxes                | 35,812    | 52,673                       | 19,265                               | (70,484)           | 37,266   |
| Income tax provision                      | 331       | (378)                        | (1,076)                              |                    | (1,123)  |
|   |           | <u>\$ 36,143</u>             | <u>\$ 52,295</u>                     | <u>\$ (70,484)</u> | <u>\$ 36,143</u>   |
| Net income                                | \$ 36,143 | \$ 52,295                    | \$ 18,189                            | \$ (70,484)        | \$ 36,143  |

See accompanying unaudited note.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATING STATEMENTS OF OPERATIONS**

Nine Months Ended March 31, 2003

(In 000s)

|   | Parent    | Guaranteeing<br>Subsidiaries | Non-<br>Guaranteeing<br>Subsidiaries | Elimina-<br>tions | Alliance<br>Gaming<br>Corporation<br>and<br>Subsidiaries |
|---|-----------|------------------------------|--------------------------------------|-------------------|--|
| <b>Revenues:</b>                          |           |                              |                                      |                   |  |
| Gaming equipment and systems              | \$        | \$226,753                    | \$ 29,049                            | \$(23,295)        | \$232,507  |
| Wall machines and amusement games         |           |                              | 46,440                               |                   | 46,440   |
| Route operations                          |           | 151,747                      | 11,194                               |                   | 162,941  |
| Casino operations                         |           | 17,631                       | 42,976                               | (6,682)           | 53,925   |
|   |           | 396,131                      | 129,659                              | (29,977)          | 495,813  |
| <b>Costs and expenses:</b>                |           |                              |                                      |                   |  |
| Cost of gaming equipment and systems      |           | 103,192                      | 20,333                               | (23,355)          | 100,170  |
| Cost of wall machines and amusement games |           |                              | 25,406                               |                   | 25,406   |
| Cost of route operations                  |           | 128,738                      | 7,470                                |                   | 136,208  |
| Cost of casino operations                 |           | 8,555                        | 16,051                               |                   | 24,606   |
| Selling, general and administrative       | 7,754     | 59,039                       | 35,842                               | (6,739)           | 95,896   |
| Research and development costs            |           | 11,778                       | 5,407                                |                   | 17,185   |
| Depreciation and amortization             | 1,686     | 22,563                       | 3,141                                |                   | 27,390   |
|   | 9,440     | 333,865                      | 113,650                              | (30,094)          | 426,861  |
| Operating income (loss)                   | (9,440)   | 62,266                       | 16,009                               | 117               | 68,952   |
| Earnings in consolidated subsidiaries     | 60,726    | 9,929                        |                                      | (70,655)          |  |
| <b>Other income (expense):</b>            |           |                              |                                      |                   |  |
| Interest income                           | 9,806     | 5,036                        | 785                                  | (14,601)          | 1,026  |
| Interest expense                          | (19,339)  | (14,100)                     | (636)                                | 14,601            | (19,474)   |
| Rainbow royalty                           | 4,786     |                              | (4,786)                              |                   |  |
| Minority interest                         | (1,483)   |                              |                                      |                   | (1,483)  |
| Other, net                                | 1,199     | (1,770)                      | 551                                  |                   | (20)   |
| Income before income taxes                | 46,255    | 61,361                       | 11,923                               | (70,538)          | 49,001   |
| Income tax provision                      | (15,364)  | (752)                        | (1,994)                              |                   | (18,110)   |
| Net income                                | \$ 30,891 | \$ 60,609                    | \$ 9,929                             | \$(70,538)        | \$ 30,891  |

See accompanying unaudited note.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATING STATEMENTS OF CASH FLOWS**

Nine Months Ended March 31, 2002  
(In 000s)

|   | Parent     | Guaranteeing<br>Subsidiaries | Non-<br>Guaranteeing<br>Subsidiaries | Elimina-<br>tions | Alliance<br>Gaming<br>Corporation<br>and<br>Subsidiaries |
|---|------------|------------------------------|--------------------------------------|-------------------|--|
| Net cash provided by (used in) operating activities | \$(25,749) | \$ 46,500                    | \$ 12,692                            | \$(3,251)         | \$ 30,192  |
| Cash flows from investing activities:               |            |                              |                                      |                   |  |
| Additions to property, plant and equipment          | (37)       | (9,115)                      | (3,066)                              |                   | (12,218)   |
| Additions to leased gaming equipment                |            | (12,498)                     |                                      |                   | (12,498)   |
| Additions to other long term assets                 |            | (4,328)                      | 27                                   |                   | (4,301)  |
| Acquisitions, net of cash acquired                  | 4,000      | (19,333)                     |                                      |                   | (15,333)   |
| Net cash used in investing activities               | 3,963      | (45,274)                     | (3,039)                              |                   | (44,350)   |
| Cash flows from financing activities:               |            |                              |                                      |                   |  |
| Reduction of long-term debt                         | (1,005)    | (20)                         | (3,602)                              | 3,251             | (1,376)  |
| Capitalized debt issuance costs                     | (660)      |                              |                                      |                   | (660)  |
| Proceeds from exercise of stock options             | 6,529      |                              |                                      |                   | 6,529  |
| Dividends received (paid)                           |            | 8,057                        | (8,057)                              |                   |  |
| Net cash provided by (used in) financing activities | 4,864      | 8,037                        | (11,659)                             | 3,251             | 4,493  |
| Effect of exchange rate changes on cash             |            |                              | 2,914                                |                   | 2,914  |
| Cash and cash equivalents:                          |            |                              |                                      |                   |  |
| Increase (decrease) for period                      | (16,922)   | 9,263                        | 908                                  |                   | (6,751)  |
| Balance, beginning of period                        | 18,237     | 23,265                       | 13,343                               |                   | 54,845   |
| Balance, end of period                              | \$ 1,315   | \$ 32,528                    | \$ 14,251                            | \$                | \$ 48,094  |

See accompanying unaudited note.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATING STATEMENTS OF CASH FLOWS**

Nine Months Ended March 31, 2003  
(In 000s)

|   | <u>Parent</u> | <u>Guaranteeing<br/>Subsidiaries</u> | <u>Non-<br/>Guaranteeing<br/>Subsidiaries</u> | <u>Elimina-<br/>tions</u> | <u>Alliance<br/>Gaming<br/>Corporation<br/>and<br/>Subsidiaries</u> |
|---|---------------|--------------------------------------|---|---------------------------|---|
| Net cash provided by (used in) operating activities | \$ 6,893      | \$ 23,533                            | \$ 16,210                                     | \$(5,421)                 | \$ 41,215   |
| Cash flows from investing activities:               |               |                                      |   |                           |   |
| Additions to property, plant and equipment          | (2)           | (8,579)                              | (4,891)                                       |                           | (13,472)  |
| Additions to leased gaming equipment                |               | (14,794)                             |   |                           | (14,794)  |
| Additions to other long term assets                 | (240)         | (5,462)                              | (140)   |                           | (5,842)   |
| Acquisitions, net of cash acquired                  |               | (3,038)                              |   |                           | (3,038)   |
| Net cash used in investing activities               | (242)         | (31,873)                             | (5,031)                                       |                           | (37,146)  |
| Cash flows from financing activities:               |               |                                      |   |                           |   |
| Reduction of long-term debt                         | (2,925)       | (537)                                | (5,591)                                       | 5,457                     | (3,596)   |
| Proceeds from exercise of stock options             | 1,961         |                                      |   |                           | 1,961   |
| Dividends received (paid)                           |               | 4,665                                | (4,665)                                       |                           |   |
| Other   |               |                                      | 36  | (36)                      |   |
| Net cash provided by (used in) financing activities | (964)         | 4,128                                | (10,220)                                      | 5,421                     | (1,635)   |
| Effect of exchange rate changes on cash             |               |                                      | 905   |                           | 905   |
| Cash and cash equivalents:                          |               |                                      |   |                           |   |
| Increase (decrease) for period                      | 5,687         | (4,212)                              | 1,864   |                           | 3,339   |
| Balance, beginning of period                        | 8,121         | 38,362                               | 16,025  |                           | 62,508  |
| Balance, end of period                              | \$ 13,808     | \$ 34,150                            | \$ 17,889                                     | \$                        | \$ 65,847   |

See accompanying unaudited note.

**Table of Contents**

**ALLIANCE GAMING CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Debt and Revolving Credit Facility**

Long-term debt and lines of credit at June 30, 2002, consisted of the following (in 000s):

|  | Parent            | Guaranteeing<br>Subsidiaries | Non-<br>Guaranteeing<br>Subsidiaries | Elimina-<br>tions   | Alliance<br>Gaming<br>Corporation<br>and<br>Subsidiaries |
|--|-------------------|------------------------------|--------------------------------------|---------------------|--|
|  | <u>          </u> | <u>          </u>            | <u>          </u>                    | <u>          </u>   | <u>          </u>  |
| Term loan facility   | \$ 189,525        | \$                           | \$                                   | \$                  | \$ 189,525   |
| 10% Senior Subordinated Notes due 2007, net<br>of unamortized discount | 149,584           |                              |                                      |                     | 149,584  |
| Other subordinated note  | 2,495             |                              |                                      |                     | 2,495  |
| Intercompany notes payable   |                   | 206,267                      | 12,814                               | (219,081)           |  |
| Other  |                   | 510                          | 150                                  |                     | 660  |
|  | <u>341,604</u>    | <u>206,777</u>               | <u>12,964</u>                        | <u>(219,081)</u>    | <u>342,264</u>   |
| Less current maturities  | 3,900             | 79                           | 12,952                               | (12,815)            | 4,116  |
|  | <u>          </u> | <u>          </u>            | <u>          </u>                    | <u>          </u>   | <u>          </u>  |
| Long-term debt, less current maturities                                | <u>\$ 337,704</u> | <u>\$ 206,698</u>            | <u>\$ 12</u>                         | <u>\$ (206,266)</u> | <u>\$ 338,148</u>  |

Long-term debt and lines of credit at March 31, 2003, consisted of the following (in 000s):

|  | Parent            | Guaranteeing<br>Subsidiaries | Non-<br>Guaranteeing<br>Subsidiaries | Elimina-<br>tions   | Alliance<br>Gaming<br>Corporation<br>and<br>Subsidiaries |
|--|-------------------|------------------------------|--------------------------------------|---------------------|--|
|  | <u>          </u> | <u>          </u>            | <u>          </u>                    | <u>          </u>   | <u>          </u>  |
| Term loan facility   | \$ 188,100        | \$                           | \$                                   | \$                  | \$ 188,100   |
| 10% Senior Subordinated Notes due 2007,<br>net of unamortized discount | 149,643           |                              |                                      |                     | 149,643  |
| Other subordinated note  | 995               |                              |                                      |                     | 995  |
| Intercompany notes payable   |                   | 222,758                      | 7,359                                | (230,117)           |  |
| Other  |                   | 11,581                       | 14                                   |                     | 11,595   |
|  | <u>338,738</u>    | <u>234,339</u>               | <u>7,373</u>                         | <u>(230,117)</u>    | <u>350,333</u>   |
| Less current maturities  | 2,895             | 1,519                        | 7,370                                | (7,359)             | 4,425  |
|  | <u>          </u> | <u>          </u>            | <u>          </u>                    | <u>          </u>   | <u>          </u>  |
| Long-term debt, less current maturities                                | <u>\$ 335,843</u> | <u>\$ 232,820</u>            | <u>\$ 3</u>                          | <u>\$ (222,758)</u> | <u>\$ 345,908</u>  |



**Table of Contents**

**ALLIANCE GAMING CORPORATION  
FORM 10-Q**

**March 31, 2003**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Liquidity and Capital Resources***

As of March 31, 2003, the Company had \$65.8 million in cash and cash equivalents, and \$24.3 million in unborrowed availability on its revolving credit facility. In addition we had net working capital of approximately \$194.7 million at March 31, 2003, compared to \$173.0 million balance at June 30, 2002. The changes within working capital are more fully described in the cash flow section below. Consolidated cash and cash equivalents at March 31, 2003, includes approximately \$21.2 million of cash which is utilized in Casino and Route Operations held in vaults, cages or change banks, as well as \$9.5 million held in jackpot reserve accounts we maintain to ensure availability of funds to pay wide-area progressive jackpot awards. We also maintain restricted investments to pay the annual installments for the long-term jackpots previously awarded, which totaled \$0.9 million at March 31, 2003.

Management believes that cash flows from operating activities, cash and cash equivalents held and the a \$24.3 million revolving credit facility commitment (which can be increased by \$15 million at the Company's discretion) will provide the Company with sufficient capital resources and liquidity. At March 31, 2003, we had no material commitments for capital expenditures.

***Cash Flow***

During the nine months ended March 31, 2003, we generated \$41.2 million of cash flows from operating activities, which was an increase compared to \$30.2 million in the prior period. The current period operating cash flow included cash used by increases in both accounts and notes receivable of \$39.5 million and inventories of \$7.2 million, offset by increases in accrued liabilities and accounts payable of \$10.0 million. The increase in accounts and notes receivable resulted primarily from the increase in sales at our Bally Gaming and Systems business unit and included the financing of two significant product sales to Native American casinos during the quarter ended December 31, 2002. No such financings occurred in the quarter ended March 31, 2003.

During the nine months ended March 31, 2003, we used \$37.1 million of cash in investing activities resulting from capital expenditures totaling \$13.5 million, costs incurred to produce participation games totaling \$14.8 million, and payments for gaming rights totaling \$3.5 million.

During the nine months ended March 31, 2003, we used \$1.6 million cash of cash in financing activities resulting from \$2.0 million of cash provided from the exercise of stock options, offset by principal payments on long term debt totaling \$3.6 million.

**Table of Contents****ALLIANCE GAMING CORPORATION  
FORM 10-Q**

March 31, 2003

**Results of Operations for each Business Unit:****Bally Gaming and Systems**

|                                     | Three Months Ending March<br>31, |                  | Nine Months Ending March 31, |                  |
|-------------------------------------|----------------------------------|------------------|------------------------------|------------------|
|                                     | 2002                             | 2003             | 2002                         | 2003             |
| <b>Revenues</b>                     |                                  |                  |                              |                  |
| Game sales                          | \$24,516                         | \$46,750         | \$ 72,399                    | \$ 130,954       |
| System sales                        | 19,124                           | 21,602           | 44,048                       | 59,918           |
| Gaming operations                   | 14,089                           | 13,989           | 38,380                       | 41,635           |
| <b>Total revenues</b>               | <b>57,729</b>                    | <b>82,341</b>    | <b>154,827</b>               | <b>232,507</b>   |
| <b>Gross Margin</b>                 |                                  |                  |                              |                  |
| Game sales                          | 8,989                            | 20,890           | 29,416                       | 58,436           |
| System sales                        | 14,553                           | 16,452           | 33,219                       | 45,491           |
| Gaming operations                   | 9,908                            | 10,750           | 25,518                       | 28,410           |
| <b>Total gross margin</b>           | <b>33,450</b>                    | <b>48,092</b>    | <b>88,153</b>                | <b>132,337</b>   |
| Selling, general and administrative | 13,422                           | 19,094           | 37,624                       | 50,255           |
| Research and development costs      | 3,588                            | 5,592            | 9,800                        | 14,725           |
| Depreciation and amortization       | 2,802                            | 4,350            | 7,152                        | 11,391           |
| <b>Operating income</b>             | <b>\$ 13,638</b>                 | <b>\$ 19,056</b> | <b>\$ 33,577</b>             | <b>\$ 55,966</b> |
| <b>Operating Statistics:</b>        |                                  |                  |                              |                  |
| New Gaming Devices Sold             | 3,025                            | 4,550            | 8,770                        | 13,980           |
| Game Monitoring Units Sold          | 13,675                           | 10,075           | 31,250                       | 25,110           |
| <b>WAP and daily-fee games</b>      |                                  |                  |                              |                  |
| End of period installed base        | 3,740                            | 4,050            | 3,740                        | 4,050            |
| Average installed base              | 3,700                            | 3,980            | 3,550                        | 3,860            |

Our Bally Gaming and Systems business unit reported an overall increase in revenues of 43% for the quarter and 50% for the year-to-date period. Bally game sales division reported an increase in revenues of 91% for the quarter and 81% for the year-to-date period. New units sold increased 50% during the quarter and 59% for the year-to-date period. The average new-unit selling price (excluding OEM games) increased 26% for the quarter and 23% for the year-to-date period. Bally Systems reported an increase in revenues of 13% for the quarter and 36% for the year-to-date period. Bally Systems reported a 26% decrease in sales of game monitoring units for the quarter, and a 20% decrease for the year-to-date period. For the current quarter and year-to-date period, Bally Systems experienced significantly higher average selling price per unit driven by a larger proportion of software revenues, as well as an increase in recurring hardware and software support revenues to \$4.5 million, resulting from the larger base of installed units, which now stands at approximately 225,000. Gaming Operations reported a decrease of 1% in revenues for the quarter and an increase of 8% for the year-to-date period, driven by the 9% increase in the average installed base of wide-area and daily-fee games units outstanding.

For the quarter ended March 31, 2003, the overall gross margin percentage for Bally Gaming and Systems remained constant at 58% and at 57% for the year-to-date.

The overall selling, general and administrative expenses increased 42% for the quarter and 34% for the year-to-date period, resulting from the additional headcount added from acquisitions. Selling, general and administrative costs as a percentage of this business unit's revenue declined to 22% in the current year-to-date period compared to 24% for the prior year-to-date



**Table of Contents****ALLIANCE GAMING CORPORATION  
FORM 10-Q****March 31, 2003**

period. Research and development costs increased 56% for the quarter and 50% for the year-to-date period, resulting from the increase in hardware and software engineers added during the current year. Total depreciation expense increased 55% for the quarter and 59% for the year-to-date period, driven by the increase in the installed base of wide-area progressive and daily fee games, which have displaced certain fully depreciated games in the field.

**Wall Machines and Amusement Games**

|                                     | <b>Three Months Ending March 31,</b> |             | <b>Nine Months Ending March 31,</b> |             |
|-------------------------------------|--------------------------------------|-------------|-------------------------------------|-------------|
|                                     | <b>2002</b>                          | <b>2003</b> | <b>2002</b>                         | <b>2003</b> |
| Revenues                            | \$ 20,531                            | \$ 18,974   | \$ 58,654                           | \$ 46,440   |
| Gross Margin                        | 10,923                               | 9,547       | 28,433                              | 21,034      |
| Selling, general and administrative | 5,812                                | 5,844       | 16,342                              | 16,419      |
| Research and development costs      | 639                                  | 921         | 1,926                               | 2,460       |
| Depreciation and amortization       | 1,265                                | 807         | 3,825                               | 1,441       |
| Operating income                    | \$ 3,207                             | \$ 1,975    | \$ 6,340                            | \$ 714      |
| <b>Operating Statistics:</b>        |                                      |             |                                     |             |
| Number of New Wall Machines Sold    | 2,320                                | 2,375       | 8,130                               | 4,845       |
| Number of New Wall Machines Leased  | 1,760                                | 1,630       | 4,370                               | 3,950       |
| Installed Base of Leased Machines   | 7,620                                | 6,860       | 7,620                               | 6,860       |

Wall Machines and Amusement Games reported a decrease in revenues of 8% for the quarter and 21% for the year-to-date period. For the quarter, the decrease in revenues was a result of a 7% decrease in number of leased games offset by a 5% increase in the average selling price and a 2% increase in new units sold. For the year-to-date period, the decrease in revenues is a result of a 40% decrease in new units sold and a 10% decrease in number of leased games, offset by a 16% increase in the average selling price. The prior year's quarterly and year-to-date results reflect the positive impact of units that were sold to meet the deadline for the full implementation of the Euro currency. In general, the Wall Machine industry in Germany continues to experience a significant slowdown that is tied to the overall slowness in the German economy.

For the quarter ended March 31, 2003, the gross margin percentage for Wall Machines and Amusement Games decreased to 50% compared to 53% in the prior year quarter, resulting primarily from fixed manufacturing overhead costs being allocated over fewer units produced. The year-to-date gross margin percentage decreased to 45% from 48% for the same reason.

The selling, general and administrative expenses decreased 1% for the quarter, which reflects the reduction in both permanent and temporary staff as a result of the workforce reductions put in place in light of the lower sales levels. Research and development costs increased 44% for the quarter and 28% for the year-to-date period as a result of the increase in new product development efforts. Total depreciation expense decreased 36% for the quarter and 62% for the year-to-date period, which reflects the fact that almost all of the long-lived assets were fully written off in June 2002.

**Table of Contents****ALLIANCE GAMING CORPORATION  
FORM 10-Q****March 31, 2003****Route Operations**

|   | Three Months Ending March<br>31, |          | Nine Months Ending March 31, |           |
|---|----------------------------------|----------|------------------------------|-----------|
|   | 2002                             | 2003     | 2002                         | 2003      |
| <b>Revenues</b>                         |                                  |          |                              |           |
| Nevada                                  | \$53,581                         | \$50,873 | \$156,135                    | \$151,747 |
| Louisiana                               | 4,200                            | 3,910    | 11,210                       | 11,194    |
| Total revenues                          | 57,781                           | 54,783   | 167,345                      | 162,941   |
| <b>Gross Margin</b>                     |                                  |          |                              |           |
| Nevada                                  | 9,031                            | 7,681    | 25,713                       | 23,009    |
| Louisiana                               | 1,480                            | 1,296    | 3,890                        | 3,724     |
| Total gross margin                      | 10,511                           | 8,977    | 29,603                       | 26,733    |
| Selling, general and administrative     | 2,958                            | 3,597    | 8,814                        | 9,595     |
| Depreciation and amortization           | 2,905                            | 3,817    | 8,997                        | 10,442    |
| <b>Operating income</b>                 |                                  |          |                              |           |
| Nevada                                  | 3,955                            | 962      | 10,186                       | 5,188     |
| Louisiana                               | 693                              | 601      | 1,606                        | 1,508     |
| Total operating income                  | \$ 4,648                         | \$ 1,563 | \$ 11,792                    | \$ 6,696  |
| <b>Operating Statistics:</b>            |                                  |          |                              |           |
| <b>Average Number of Gaming Devices</b> |                                  |          |                              |           |
| Nevada                                  | 8,240                            | 7,985    | 8,260                        | 8,155     |
| Louisiana                               | 730                              | 725      | 690                          | 715       |
| Total Gaming Devices                    | 8,970                            | 8,710    | 8,950                        | 8,870     |

Revenues from the Nevada route operations decreased 5% for the quarter and 3% for year-to-date period. This decrease was attributable to a decrease in the average net win per gaming machine per day of 2% to \$69.00 from \$70.50 and a 3% decrease in the weighted average number of gaming machines for the quarter. The revenue decrease for the year-to-date period is a result of a 2% decrease in the average net win per gaming machine per day to \$66.65 from \$68.00 and a 1% decrease in the weighted average number of games. During the quarter an additional eight former Raley's locations that had closed in the December 2002 quarter, were re-opened as Food-4-Less locations. However, play at those locations is currently substantially lower than the historical norms as the Food-4-Less stores build their customer base and the expectation in the future is that Food-4-Less locations will continue to earn much lower figures given the customer(s) marketed for these locations. We have completed the acquisition of the remaining economic interest in the route contract for the Longs Drug Stores as well as an extension in that contract for an additional five years through 2012. Longs will be opening an additional two locations in Southern Nevada in the coming months. Gamblers' Bonus, a cardless players club and player tracking system, continued to have a favorable impact on the net win per day. As of March 31, 2003, the Gamblers' Bonus product was installed in over 4,160 gaming machines at approximately 415 locations statewide or 52% of the installed base of gaming machines.

Revenues from route operations in Louisiana reported a decrease of 7% for the quarter and for year-to-date period remained relatively flat. For the quarter the decrease was primarily the result of a 5% decrease in the net win per gaming machine per day to \$60.50 from \$63.40, and a slight decline in the number of gaming units deployed. For the year-to-date period the revenue remained relatively unchanged, resulting from a 4% increase in the number of gaming units deployed, offset by a 4% decline in the net win per gaming machine per day.



**Table of Contents****ALLIANCE GAMING CORPORATION  
FORM 10-Q****March 31, 2003**

For both the quarter and year-to-date ended March 31, 2003, the overall gross margin percentage for the Route Operations decreased slightly to 16% compared to 18% in the prior year. This decrease was a result of the decrease in revenues, with incremental increases in certain operating costs.

The overall selling, general and administrative expenses increased 22% for the quarter and increased 9% for the year-to-date period. Selling, general and administrative costs as a percentage of revenue increased to 6% compared to 5% for the year-to-date period. Total depreciation expense increased 31% for the quarter and 16% for the year-to-date period, driven by the increase in gaming rights fees amortization and depreciation on a higher capital invested in the installed base of gaming devices.

**Casino Operations**

|   | <b>Three Months Ending March 31,</b> |                 | <b>Nine Months Ending March 31,</b> |                  |
|---|--------------------------------------|-----------------|-------------------------------------|------------------|
|   | <b>2002</b>                          | <b>2003</b>     | <b>2002</b>                         | <b>2003</b>      |
| <b>Revenues</b>                         |                                      |                 |                                     |                  |
| Rainbow Casino                          | \$ 13,947                            | \$ 13,891       | \$ 39,770                           | \$ 38,158        |
| Rail City Casino                        | 5,054                                | 5,466           | 15,017                              | 15,767           |
|   | <u>19,001</u>                        | <u>19,357</u>   | <u>54,787</u>                       | <u>53,925</u>    |
| <b>Gross Margin</b>                     |                                      |                 |                                     |                  |
| Rainbow Casino                          | 8,686                                | 8,360           | 23,862                              | 22,107           |
| Rail City Casino                        | 2,211                                | 2,641           | 6,620                               | 7,212            |
|   | <u>10,897</u>                        | <u>11,001</u>   | <u>30,482</u>                       | <u>29,319</u>    |
| Selling, general and administrative     | 3,913                                | 3,925           | 11,413                              | 11,873           |
| Depreciation and amortization           | 549                                  | 896             | 1,483                               | 2,430            |
|   | <u>4,462</u>                         | <u>4,821</u>    | <u>12,896</u>                       | <u>14,303</u>    |
| <b>Operating income</b>                 |                                      |                 |                                     |                  |
| Rainbow Casino                          | 5,184                                | 4,843           | 13,897                              | 11,388           |
| Rail City Casino                        | 1,251                                | 1,337           | 3,689                               | 3,628            |
|   | <u>\$ 6,435</u>                      | <u>\$ 6,180</u> | <u>\$ 17,586</u>                    | <u>\$ 15,016</u> |
| <b>Operating Statistics:</b>            |                                      |                 |                                     |                  |
| <b>Average Number of Gaming Devices</b> |                                      |                 |                                     |                  |
| Rainbow Casino                          | 975                                  | 950             | 945                                 | 940              |
| Rail City Casino                        | 530                                  | 560             | 525                                 | 550              |
|   | <u>1,505</u>                         | <u>1,510</u>    | <u>1,470</u>                        | <u>1,490</u>     |
| <b>Average Number of Table Games</b>    |                                      |                 |                                     |                  |
|   | 24                                   | 24              | 24                                  | 24               |

Rainbow Casino revenues remained relatively unchanged compared with the same quarter in fiscal 2002 and decreased 4% for the year-to-date period. The quarter results reverses several consecutive quarters of declines and is a direct result of the recently completed interior remodeling projects and increases in promotional programs. The Vicksburg gaming market declined approximately 2% in the March 31, 2003, quarter compared to the prior year quarter. The external remodeling project, which began late in January and is expected to be completed early in the June quarter, is expected to be less disruptive to the casino operations. Rail City Casino reported an increase in revenues of 8% for the quarter and 5% for the year-to-date period. The revenue improvement at the Rail City Casino was attributable to a 6% increase in the average number of gaming machines.

## Edgar Filing: ALLIANCE GAMING CORP - Form 10-Q

The cost of revenues for Casino Operations as a percentage of revenues remained flat at 43% for the quarter and increased to 46% for the year-to-date period. This increase was a result of the decrease in revenues, with incremental increases in



**Table of Contents****ALLIANCE GAMING CORPORATION  
FORM 10-Q****March 31, 2003**

certain operating costs. Cost of casino revenues includes gaming taxes, rental costs and direct labor including payroll taxes and benefits.

The overall selling, general and administrative expenses remained constant for the quarter and increased 4% for the year-to-date period, as a result of an increase in advertising and promotional expenses. Selling, general and administrative costs as a percentage of revenue increased to 22% compared to 21% for the year-to-date-period. Total depreciation expense increased 63% for the quarter and 64% for the year-to-date period as a result of the additional capital improvements made to the Rainbow Casino in the current year.

*Parent Company and other unallocated other income (expense)*

|                               | <b>Three Months Ending March 31,</b> |                   | <b>Nine Months Ending March 31,</b> |                   |
|-------------------------------|--------------------------------------|-------------------|-------------------------------------|-------------------|
|                               | <b>2002</b>                          | <b>2003</b>       | <b>2002</b>                         | <b>2003</b>       |
| General and administrative    | \$ 2,674                             | \$ 2,896          | \$ 7,676                            | \$ 7,754          |
| Depreciation and amortization | 549                                  | 600               | 1,653                               | 1,686             |
|                               | <u>          </u>                    | <u>          </u> | <u>          </u>                   | <u>          </u> |
| Total Parent company expense  | \$ 3,223                             | \$ 3,496          | \$ 9,329                            | \$ 9,440          |
|                               | <u>          </u>                    | <u>          </u> | <u>          </u>                   | <u>          </u> |
| Other income (expense):       |                                      |                   |                                     |                   |
| Interest income               | \$ 282                               | \$ 293            | \$ 1,046                            | \$ 1,026          |
| Interest expense              | (6,820)                              | (6,272)           | (21,500)                            | (19,474)          |
| Minority interest             | (609)                                | (729)             | (1,477)                             | (1,483)           |
| Other, net                    | (757)                                | (217)             | (769)                               | (20)              |
|                               | <u>          </u>                    | <u>          </u> | <u>          </u>                   | <u>          </u> |
| Total other income (expense)  | \$(7,904)                            | \$(6,925)         | \$(22,700)                          | \$(19,951)        |
|                               | <u>          </u>                    | <u>          </u> | <u>          </u>                   | <u>          </u> |
| Income tax provision          | \$ (902)                             | \$ (5,573)        | \$ (1,123)                          | \$ (18,110)       |
|                               | <u>          </u>                    | <u>          </u> | <u>          </u>                   | <u>          </u> |

The general and administrative expenses increased 8% for the quarter and 1% for the year-to-date period. Compared to the prior year periods, in the current year periods we are incurring higher director and officer and general liability insurance premiums, offset by lower accruals for certain elements of our incentive based compensations plan. Total depreciation expense increased 9% for the quarter and 2% for the year-to-date period.

Interest expense (net of interest income) decreased 9% for the quarter and 10% for the year-to-date-period. The decrease is a result of a lower interest rate on our LIBOR-based bank credit facility.

The Company has significant deferred tax assets, which consist primarily of net operating loss carry forwards and other timing differences. Management conducts periodic recoverability assessments of these deferred tax assets, which includes evaluating both positive and negative evidential matter to determine if it is more likely than not that the deferred tax assets will be realizable. On June 30, 2002, management conducted a recoverability assessment and determined that \$37 million in previously reserved deferred tax assets were realizable due to the Company's profitable operating results in 2001 and 2002 and projected future taxable income. Until the fourth quarter of fiscal year 2002, management did not believe sufficient evidence existed that it was more likely than not that such profitable operating results would allow such deferred tax assets to be realized.

Beginning July 1, 2002, the Company began recognizing Federal income tax expense based on 35% of pre-tax domestic income and state income taxes at a rate of approximately 2% of domestic income. The income generated in Germany was offset against German NOLs. For the prior year quarter ended March 31, 2002, substantially all of the Company's taxable income was offset against Federal net operating loss carry forwards, which reduced the Company's tax expense for the quarter ended March 31, 2002, from approximately \$5.7 million to approximately \$902,000.



**Table of Contents****ALLIANCE GAMING CORPORATION  
FORM 10-Q**

March 31, 2003

**Other Supplemental Information:**

The following tables set forth operating income for the Company's four business units and the earnings before interest, taxes, depreciation and amortization (EBITDA) for the following periods (in 000s):

|   | Three Months Ending March 31,<br>2002 | 2003             | Nine Months Ending March 31,<br>2002 | 2003             |
|---|---------------------------------------|------------------|--------------------------------------|------------------|
| <b>Operating Income (Expense):</b>            |                                       |                  |                                      |                  |
| Bally Gaming and Systems                      | \$ 13,638                             | \$ 19,056        | \$ 33,577                            | \$ 55,966        |
| Wall Machines and Amusement Games             | 3,207                                 | 1,975            | 6,340                                | 714              |
| Route Operations                              | 4,648                                 | 1,563            | 11,792                               | 6,696            |
| Casino Operations                             | 6,435                                 | 6,180            | 17,586                               | 15,016           |
| Corporate Administrative Expenses             | (3,223)                               | (3,496)          | (9,329)                              | (9,440)          |
| <b>Total Operating Income</b>                 | <b>\$ 24,705</b>                      | <b>\$ 25,278</b> | <b>\$ 59,966</b>                     | <b>\$ 68,952</b> |
| <b>Add back depreciation:</b>                 |                                       |                  |                                      |                  |
| Bally Gaming and Systems                      | \$ 2,802                              | \$ 4,350         | \$ 7,152                             | \$ 11,391        |
| Wall Machines and Amusement Games             | 1,265                                 | 807              | 3,825                                | 1,441            |
| Route Operations                              | 2,905                                 | 3,817            | 8,997                                | 10,442           |
| Casino Operations                             | 549                                   | 896              | 1,483                                | 2,430            |
| Corporate Administrative Expenses             | 549                                   | 600              | 1,653                                | 1,686            |
| <b>Depreciation and Amortization Expenses</b> | <b>\$ 8,070</b>                       | <b>\$ 10,470</b> | <b>\$ 23,110</b>                     | <b>\$ 27,390</b> |
| <b>EBITDA by Business Unit:</b>               |                                       |                  |                                      |                  |
| Bally Gaming and Systems                      | \$ 16,440                             | \$ 23,406        | \$ 40,729                            | \$ 67,357        |
| Wall Machines and Amusement Games             | 4,472                                 | 2,782            | 10,165                               | 2,155            |
| Route Operations                              | 7,553                                 | 5,380            | 20,789                               | 17,138           |
| Casino Operations                             | 6,984                                 | 7,076            | 19,069                               | 17,446           |
| Corporate Administrative Expenses             | (2,674)                               | (2,896)          | (7,676)                              | (7,754)          |
| <b>EBITDA</b>                                 | <b>\$ 32,775</b>                      | <b>\$ 35,748</b> | <b>\$ 83,076</b>                     | <b>\$ 96,342</b> |

We believe that the analysis of EBITDA is a useful adjunct to operating income, net income, cash flow and other GAAP based measures. However, EBITDA should not be construed as an alternative to net income (loss) or cash flows generated by (or used in) operating, investing and financing activities determined in accordance with GAAP or as a measure of liquidity. EBITDA may not be comparable to similarly titled measures reported by other companies. We disclose EBITDA primarily because it is one of several performance measures used by industry analysts, rating agencies and our business units. Management uses EBITDA and operating income in evaluating potential asset acquisitions/dispositions and in assessing management's performance.

**Table of Contents**

**ALLIANCE GAMING CORPORATION  
FORM 10-Q**

**March 31, 2003**

\* \* \* \* \*

The information contained in this Form 10-Q may contain forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1933, as amended, and is subject to the safe harbor created thereby. Such information involves important risks and uncertainties that could significantly affect results in the future and, accordingly, such results may differ from those expressed in any forward looking statements herein. Future operating results may be adversely affected as a result of a number of factors such as the Company's high leverage, its holding company structure, its operating history and recent losses, competition, risks of product development, customer financing, sales to non-traditional gaming markets, foreign operations, dependence on key personnel, strict regulation by gaming authorities, gaming taxes and value added taxes, and other risks, as detailed from time to time in the Company's filings with the Securities and Exchange Commission.

**Table of Contents**

**ALLIANCE GAMING CORPORATION  
FORM 10-Q**

**March 31, 2003**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

***Currency Rate Fluctuations***

We derive revenues from our non-U.S. subsidiaries, all of which revenues are denominated in their local currencies, and their results are affected by changes in the relative values of non-U.S. currencies and the U.S. dollar. Most of the currencies in countries in which we have foreign operations strengthened versus the U.S. dollar in 2002 and 2003, which resulted in assets and liabilities denominated in local currencies being translated into more dollars. We do not currently utilize hedging instruments.

***Market risks***

During the normal course of our business, we are routinely subjected to a variety of market risks, examples of which include, but are not limited to, interest and currency rate movements, collectibility of accounts and notes receivable, and recoverability of residual values on leased assets. We continually assess these risks and have established policies and practices designed to protect against the adverse effects of these and other potential exposures. Although we do not anticipate any material losses in these risk areas, no assurances can be made that material losses will not be incurred in these areas in the future.

We have performed a sensitivity analysis of our financial instruments, which consist of our cash and cash equivalents and debt. We have no derivative financial instruments. In performing the sensitivity analysis, we define risk of loss as the hypothetical impact on earnings of changes in the market interest rates or currency exchange rates.

The results of the sensitivity analysis at March 31, 2003, are as follows:

**Interest Rate Risk:**

We had total debt as of March 31, 2003, of \$350.3 million, of which \$188.1 million are Term Loans with interest rates tied to LIBOR. These Term Loans are broken into individual loans with varying terms from one to six months. The interest rate for each loan is set on the borrowing date and is effective for the term outstanding. If the LIBOR rates were to increase or decrease by 100 basis points, with all other factors remaining constant, earnings would decrease or increase by approximately \$2.0 million on a pre-tax basis.

**Foreign Currency Exchange Rate Risk:**

Our German subsidiaries currently utilize the euro as our functional currency. Prior to January 2002, the German deutschemark was used. A 10% fluctuation in the exchange rate against the U.S. dollar would result in a corresponding change in earnings reported in the consolidated group of approximately \$0.2 million. Such a change in the euro would result in a charge to accumulated other comprehensive income (loss), which is a component of stockholder's equity, of approximately \$4.3 million, all other factors remaining constant.

**ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures. Within the ninety days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and the Company's Sr. Vice President, Chief Financial Officer and Treasurer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Company's President and Chief

**Table of Contents**

**ALLIANCE GAMING CORPORATION  
FORM 10-Q**

**March 31, 2003**

Executive Officer and the Company's Sr. Vice President, Chief Financial Officer and Treasurer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

(b) Changes in internal control. No significant changes were made in the Company's internal controls or in the other factors that could significantly affect these controls subsequent to the date of their evaluation.

**PART II**

**ITEM 1. Legal Proceedings**

There have been no material changes in any legal proceedings since filing of the Company's annual report on Form 10-K for the fiscal year ended June 30, 2002.

**ITEM 6. Exhibits and Reports on Form 8-K**

a. Exhibits - None

b. Reports on Form 8-K - None

c. Exhibits

99.1 Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

33

---

**Table of Contents**

**ALLIANCE GAMING CORPORATION  
FORM 10-Q**

**March 31, 2003**

**SIGNATURES**

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

ALLIANCE GAMING CORPORATION  
(Registrant)

Date: May 12, 2003

By /s/ Robert L. Miodunski

\_\_\_\_\_  
President and Chief Executive Officer  
(Principal Executive Officer)

By /s/ Robert L. Saxton

\_\_\_\_\_  
Sr. Vice President, Chief Financial  
Officer and Treasurer (Principal  
Financial and Accounting Officer)

**Table of Contents**

**ALLIANCE GAMING CORPORATION  
FORM 10-Q**

**March 31, 2003**

CERTIFICATIONS

I, Robert L. Miodunski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alliance Gaming Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Robert L. Miodunski

---

Robert L. Miodunski  
Director, President and  
Chief Executive Officer





**Table of Contents**

**ALLIANCE GAMING CORPORATION  
FORM 10-Q**

**March 31, 2003**

I, Robert L. Saxton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alliance Gaming Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Robert L. Saxton

---

Robert L. Saxton  
Sr. Vice President, Treasurer and  
Chief Financial Officer (Principal Financial and Accounting Officer)