

ALLIANCE GAMING CORP

Form 10-Q

November 08, 2002

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**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 Quarter ended September 30, 2002
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

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 November 4, 2002, according to the records of the registrant's registrar and transfer agent was 48,859,000.

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**ALLIANCE GAMING CORPORATION
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Table of Contents**PART 1****ALLIANCE GAMING CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(In 000 s, except share data)

	June 30, 2002	September 30, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 63,404	\$ 63,461
Accounts and notes receivable, net of allowance for doubtful accounts of \$15,695 and \$15,647	96,832	95,593
Inventories, net of reserves of \$7,814 and \$6,837	42,997	45,543
Deferred tax assets, net	27,605	27,605
Other current assets	13,975	14,430
	<u>244,813</u>	<u>246,632</u>
Total current assets		
Long-term notes receivable, net of allowance for doubtful accounts of \$456 and \$431	2,389	2,317
Leased equipment, net of accumulated depreciation of \$9,931 and \$11,688	17,892	21,697
Property, plant and equipment, net of accumulated depreciation and amortization of \$63,313 and \$66,523	91,982	92,150
Excess of costs over net assets of acquired businesses, net of accumulated amortization of \$6,517 and \$6,518	47,713	47,740
Intangible assets, net of accumulated amortization of \$25,148 and \$25,421	32,512	34,184
Deferred tax assets, net	18,240	13,825
Other assets, net of reserves of \$1,818 and \$1,818	4,339	4,466
	<u>459,880</u>	<u>463,011</u>
Total assets		
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 15,894	\$ 17,173
Accrued liabilities	45,841	39,979
Jackpot liabilities	5,915	7,138
Current maturities of long-term debt	4,116	3,970
	<u>71,766</u>	<u>68,260</u>
Total current liabilities		
Long-term debt, net	338,148	337,161
Other liabilities	2,747	3,527
	<u>412,661</u>	<u>408,948</u>
Total liabilities		
Minority interest	1,233	1,099
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 49,304,000 shares issued	4,927	4,934
Treasury stock at cost, 513,000 shares	(501)	(501)

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Additional paid-in capital	157,866	158,550
Accumulated other comprehensive losses	(19,364)	(19,335)
Accumulated deficit	(96,954)	(90,696)
	<u> </u>	<u> </u>
Total stockholders' equity	45,986	52,964
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$459,880	\$463,011
	<u> </u>	<u> </u>

See notes to unaudited condensed consolidated financial statements.

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ALLIANCE GAMING CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In 000 s, except per share data)

	Three Months Ended Sept. 30,	
	2001	2002
Revenues:		
Gaming equipment and systems	\$ 45,315	\$ 63,539
Wall machines and amusement games	12,661	10,566
Route operations	53,800	54,837
Casino operations	18,179	17,790
	<u>129,955</u>	<u>146,732</u>
Costs and expenses:		
Cost of gaming equipment and systems	19,551	26,258
Cost of wall machines and amusement games	7,505	6,170
Cost of route operations	44,398	45,720
Cost of casino operations	8,335	8,188
Selling, general and administrative	23,889	29,416
Research and development costs	3,692	4,760
Depreciation and amortization	7,724	7,999
	<u>115,094</u>	<u>128,511</u>
Operating income	14,861	18,221
Other income (expense):		
Interest income	395	281
Interest expense	(7,647)	(6,636)
Minority interest	(463)	(445)
Other, net	420	(71)
	<u>7,566</u>	<u>11,350</u>
Income before income taxes	7,566	11,350
Income tax provision	(138)	(5,092)
	<u>7,428</u>	<u>6,258</u>
Net income	\$ 7,428	\$ 6,258
Basic earnings per share		
Basic earnings per share	\$ 0.17	\$ 0.13
Diluted earnings per share		
Diluted earnings per share	\$ 0.16	\$ 0.13
Weighted average common shares outstanding		
Weighted average common shares outstanding	43,650	48,740
Weighted average common and common share equivalents outstanding		
Weighted average common and common share equivalents outstanding	46,494	49,821

See notes to unaudited condensed consolidated financial statements.

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ALLIANCE GAMING CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Three Months Ended September 30, 2002
(In 000 \$)

	Common Stock		Series E Special Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Losses	Accum. Deficit	Total Stock- holders' Equity
	Shares	Dollars						
Balances at June 30, 2002	49,227	\$4,927	\$ 12	\$(501)	\$ 157,866	\$(19,364)	\$(96,954)	\$45,986
Net income							6,258	6,258
Foreign currency translation adjustment						29		29
Total comprehensive income								6,287
Shares issued upon exercise of stock options	77	7			568			575
Tax benefit of employee stock option exercises					116			116
Balances at Sept. 30, 2002	49,304	\$4,934	\$ 12	\$(501)	\$ 158,550	\$(19,335)	\$(90,696)	\$52,964

See notes to unaudited condensed consolidated financial statements.

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ALLIANCE GAMING CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In 000 s)

	Three Months Ended Sept. 30,	
	2001	2002
Cash flows from operating activities:		
Net income	\$ 7,428	\$ 6,258
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,724	7,999
Amortization of debt discount	20	20
(Gain) loss on sale of assets	25	(11)
Provision for losses on receivables	379	91
Deferred income tax		4,535
Other	552	(246)
Net change in operating assets and liabilities:		
Accounts and notes receivable	6,091	1,192
Inventories	(6,608)	(4,513)
Other current assets	1,602	(116)
Accounts payable	(3,657)	1,280
Accrued liabilities	(4,473)	(3,868)
	9,083	12,621
Cash flows from investing activities:		
Additions to property, plant and equipment	(3,450)	(4,282)
Additions to leased gaming equipment	(2,887)	(4,750)
Additions to other long-term assets	(1,305)	(2,976)
Proceeds from disposal of property and equipment and other assets	16	8
	(7,626)	(12,000)
Cash flows from financing activities:		
Reduction of long-term debt	(123)	(1,152)
Net increase (decrease) in revolving credit facility		
Proceeds from exercise of stock options and warrants	1,166	575
	1,043	(577)
Effect of exchange rate changes on cash	194	13
Cash and cash equivalents:		
Increase for period	2,694	57
Balance, beginning of period	54,845	63,404
	\$ 57,539	\$ 63,461

See notes to unaudited condensed consolidated financial statements

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

Three Months Ended September 30, 2001 and 2002

1. BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements reflect all normal recurring adjustments, that 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, which 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.

The accompanying condensed consolidated financial statements at June 30, 2002, were derived from audited consolidated financial statements, but do not include all disclosures required under generally accepted accounting principles. Certain reclassifications have been made to conform to the current year presentation.

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 000 s):

	June 30, 2002	Sept. 30, 2002
Raw materials	\$ 17,158	\$ 18,849
Work-in-process	936	3,635
Finished goods	24,903	23,059
	<u> </u>	<u> </u>
Total inventories	\$ 42,997	\$ 45,543
	<u> </u>	<u> </u>

3. DEBT

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

	June 30, 2002	Sept. 30, 2002
Term loan facility	\$ 189,525	\$ 189,050
10% Senior Subordinated Notes due 2007, net of unamortized discount of \$416 and \$396	149,584	149,604
Other subordinated debt	2,495	1,995
Other, primarily secured by related equipment	660	482
	<u> </u>	<u> </u>
	342,264	341,131
Less current maturities	4,116	3,970
	<u> </u>	<u> </u>
Long-term debt, less current maturities	\$ 338,148	\$ 337,161
	<u> </u>	<u> </u>

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The Company's debt structure consists primarily of a \$190 million term loan facility and a \$25 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 5.4% as of September 30, 2002), has a 1% per year mandatory principal amortization, and a 5.5 year maturity. The revolving credit facility commitment decreases ratably over its 5 year commitment. As of

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

Three Months Ended September 30, 2001 and 2002

September 30, 2002, there were no borrowings outstanding on the revolving credit facility. The bank facility loan contains certain customary financial and operational covenants.

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), other than the entity that holds the Company's interest in its Louisiana and Mississippi operations, and 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 September 30, 2002, 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 September 30, 2002, we are also in compliance with the covenants contained in the Indenture for the Senior Subordinated Notes.

4. INCOME TAXES

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. There was no tax benefit recorded for the operating loss generated in Germany. For the prior year quarter ended September 30, 2001, substantially all of the Company's taxable income was offset against Federal net operating loss carry forwards. This reduced the Company's tax expense from approximately \$3.5 million to approximately \$138,000.

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

Three Months Ended September 30, 2001 and 2002

5. EARNINGS PER SHARE

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

	Three months ended September 30,	
	2001	2002
Net income	\$ 7,428	\$ 6,258
Weighted average common shares outstanding	43,650	48,740
Effect of stock options outstanding	2,842	1,079
Effect of Series E Special Stock outstanding	2	2
	<hr/>	<hr/>
Weighted average common and potential shares outstanding	46,494	49,821
Basic earnings per share	\$ 0.17	\$ 0.13
	<hr/>	<hr/>
Diluted earnings per share	\$ 0.16	\$ 0.13
	<hr/>	<hr/>

6. 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 (loss) (in 000 s):

	Three Months Ended September 30,	
	2001	2002
Revenues:		
Gaming equipment and systems	\$ 45,315	\$ 63,539
Wall machines and amusement games	12,661	10,566
Route operations	53,800	54,837
Casino operations	18,179	17,790
	<hr/>	<hr/>
Total revenues	\$ 129,955	\$ 146,732
	<hr/>	<hr/>
Intersegment revenues:		
Gaming equipment and systems	\$ 3,534	\$ 5,056
Wall machines and amusement games		
Route operations		
Casino operations		
	<hr/>	<hr/>
Total intersegment revenues	\$ 3,534	\$ 5,056



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

Three Months Ended September 30, 2001 and 2002

	Three Months Ended September 30,	
	2001	2002
Operating income (loss):		
Gaming equipment and systems	\$ 9,930	\$ 15,135
Wall machines and amusement games	(1,358)	(1,815)
Route operations	3,120	2,665
Casino operations	5,867	5,015
Corporate	(2,698)	(2,779)
	\$ 14,861	\$ 18,221

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 (loss) by geographic region (in \$000's):

	Three Months Ended September 30,	
	2001	2002
Revenues:		
United States	\$ 112,882	\$ 130,481
Germany	14,496	14,952
Other foreign	2,577	1,299
	\$ 129,955	\$ 146,732
Operating income:		
United States	\$ 15,289	\$ 19,831
Germany	(1,226)	(1,493)
Other foreign	798	(117)
	\$ 14,861	\$ 18,221

7. SUPPLEMENTAL CASH FLOW INFORMATION

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

Three months ended Sept. 30,	
2001	2002

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	<u> </u>	<u> </u>
Non-cash transactions:		
Reclassify inventory to equipment	\$ 1,154	\$1,954
(Favorable) unfavorable translation rate adjustment	(3,648)	(16)

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

Three Months Ended September 30, 2001 and 2002

8. 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 2). The financial information presented includes Alliance Gaming Corporation (the Parent) and its wholly-owned guaranteeing subsidiaries (together the Parent and Guaranteeing Subsidiaries), and the non-guaranteeing subsidiaries Video Services, Inc., United Gaming Rainbow, BGI Australia Pty. Limited, Bally Gaming de Puerto Rico, Inc., 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.

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

CONSOLIDATING BALANCE SHEETS

June 30, 2002
(In 000 s)

	Parent and Guaranteeing Subsidiaries	Non- Guaranteeing Subsidiaries	Elimina- tions	Alliance Gaming Corporation and Subsidiaries
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 47,379	\$ 16,025	\$	\$ 63,404
Accounts and notes receivable, net	66,698	43,956	(13,822)	96,832
Inventories, net	28,469	14,528		42,997
Deferred tax assets, net	27,586	19		27,605
Other current assets	12,567	1,408		13,975
	<u>182,699</u>	<u>75,936</u>	<u>(13,822)</u>	<u>244,813</u>
Long-term notes receivable, net	60,818	408	(58,837)	2,389
Leased equipment, net	17,892			17,892
Property, plant and equipment, net	59,165	32,817		91,982
Excess of costs over net assets of acquired businesses, net	43,390	4,323		47,713
Intangible assets, net	32,511	1		32,512
Investments in subsidiaries	81,855		(81,855)	
Deferred tax assets, net	17,489	751		18,240
Other assets, net	8,118	(4,131)	352	4,339
	<u>\$503,937</u>	<u>\$110,105</u>	<u>\$(154,162)</u>	<u>\$459,880</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 13,533	\$ 2,361	\$	\$ 15,894
Accrued liabilities	33,840	13,033	(1,032)	45,841
Jackpot liabilities	5,812	103		5,915
Current maturities of long-term debt	3,979	12,952	(12,815)	4,116
	<u>57,164</u>	<u>28,449</u>	<u>(13,847)</u>	<u>71,766</u>
Long term debt, net	396,807	12	(58,671)	338,148
Other liabilities	2,747			2,747
	<u>456,718</u>	<u>28,461</u>	<u>(72,518)</u>	<u>412,661</u>
Minority interest	1,233			1,233
Commitments and contingencies				
Stockholders' equity:				
Series E Special Stock	12			12
Common Stock	4,927	17,832	(17,832)	4,927
Treasury stock	(501)			(501)

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Additional paid-in capital	157,866	7,862	(7,862)	157,866
Accumulated other comprehensive loss	(19,364)	(19,384)	19,384	(19,364)
Retained earnings (accumulated deficit)	(96,954)	75,334	(75,334)	(96,954)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total stockholders' equity	45,986	81,644	(81,644)	45,986
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$503,937	\$110,105	\$(154,162)	\$459,880
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying unaudited note.

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

CONSOLIDATING BALANCE SHEETS

September 30, 2002
(In 000 s)

	Parent and Guaranteeing Subsidiaries	Non- Guaranteeing Subsidiaries	Elimina- tions	Alliance Gaming Corporation and Subsidiaries
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 44,998	\$ 18,463	\$	\$ 63,461
Accounts and notes receivable, net	69,314	37,262	(10,983)	95,593
Inventories, net	31,307	14,236		45,543
Deferred tax assets, net	27,586	19		27,605
Other current assets	12,475	1,955		14,430
	<u>185,680</u>	<u>71,935</u>	<u>(10,983)</u>	<u>246,632</u>
Long-term notes receivable, net	62,312	427	(60,422)	2,317
Leased equipment, net	19,875	1,822		21,697
Property, plant and equipment, net	58,597	33,553		92,150
Excess of costs over net assets of acquired businesses, net	43,408	4,332		47,740
Intangible assets, net	34,166	18		34,184
Investment in subsidiaries	81,635		(81,635)	
Deferred tax assets, net	13,070	755		13,825
Other assets, net	9,151	(5,031)	346	4,466
	<u>\$ 507,894</u>	<u>\$ 107,811</u>	<u>\$(152,694)</u>	<u>\$ 463,011</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 14,489	\$ 2,684	\$	\$ 17,173
Accrued liabilities	27,425	13,690	(1,136)	39,979
Jackpot liabilities	7,023	115		7,138
Current maturities of long-term debt	3,959	9,889	(9,878)	3,970
	<u>52,896</u>	<u>26,378</u>	<u>(11,014)</u>	<u>68,260</u>
Long term debt	397,408	9	(60,256)	337,161
Other liabilities	3,527			3,527
	<u>453,831</u>	<u>26,387</u>	<u>(71,270)</u>	<u>408,948</u>
Minority interest	1,099			1,099
Commitments and contingencies				
Stockholders' equity:				
Series E Special Stock	12			12
Common Stock	4,934	17,832	(17,832)	4,934
Treasury stock	(501)			(501)

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Additional paid-in capital	158,550	7,898	(7,898)	158,550
Accumulated other comprehensive income	(19,335)	(19,355)	19,355	(19,335)
Retained earnings (accumulated deficit)	(90,696)	75,049	(75,049)	(90,696)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total stockholders' equity	52,964	81,424	(81,424)	52,964
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	\$507,894	\$107,811	\$(152,694)	\$463,011
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying unaudited note.

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

CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2001

(In 000 s)

	Parent and Guaranteeing Subsidiaries	Non- Guaranteeing Subsidiaries	Elimina- tions	Alliance Gaming Corporation and Subsidiaries
Revenues:				
Gaming equipment and systems	\$43,825	\$ 4,412	\$(2,922)	\$ 45,315
Wall machines and amusement games		12,661		12,661
Route operations	50,271	3,529		53,800
Casino operations	4,977	13,202		18,179
	<u>99,073</u>	<u>33,804</u>	<u>(2,922)</u>	<u>129,955</u>
Costs and expenses:				
Cost of gaming equipment and systems	19,723	2,750	(2,922)	19,551
Cost of wall machines and amusement games		7,505		7,505
Cost of route operations	42,111	2,287		44,398
Cost of casino operations	2,770	5,565		8,335
Selling, general and administrative	15,286	8,603		23,889
Research and development costs	3,070	622		3,692
Depreciation and amortization	6,040	1,684		7,724
	<u>89,000</u>	<u>29,016</u>	<u>(2,922)</u>	<u>115,094</u>
Operating income	10,073	4,788		14,861
Earnings in consolidated subsidiaries	2,233		(2,233)	
Other income (expense):				
Interest income	516	217	(338)	395
Interest expense	(7,627)	(358)	338	(7,647)
Rainbow royalty	1,646	(1,646)		
Minority interest	(463)			(463)
Other, net	997	(577)		420
	<u>7,375</u>	<u>2,424</u>	<u>(2,233)</u>	<u>7,566</u>
Income before income taxes	7,375	2,424	(2,233)	7,566
Income tax provision	53	(191)		(138)
	<u>\$ 7,428</u>	<u>\$ 2,233</u>	<u>\$(2,233)</u>	<u>\$ 7,428</u>
Net income	\$ 7,428	\$ 2,233	\$(2,233)	\$ 7,428

See accompanying unaudited note.

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

CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2002

(In 000 s)

	Parent and Guaranteeing Subsidiaries	Non- Guaranteeing Subsidiaries	Elimina- tions	Alliance Gaming Corporation and Subsidiaries
Revenues:				
Gaming equipment and systems	\$ 62,192	\$ 5,685	\$(4,338)	\$ 63,539
Wall machines and amusement games		10,566		10,566
Route operations	51,147	3,690		54,837
Casino operations	5,123	12,667		17,790
	<u>118,462</u>	<u>32,608</u>	<u>(4,338)</u>	<u>146,732</u>
Costs and expenses:				
Cost of gaming equipment and systems	27,085	3,511	(4,338)	26,258
Cost of wall machines and amusement games		6,170		6,170
Cost of route operations	43,251	2,469		45,720
Cost of casino operations	2,891	5,297		8,188
Selling, general and administrative	19,257	10,159		29,416
Research and development costs	3,183	1,577		4,760
Depreciation and amortization	7,334	665		7,999
	<u>103,001</u>	<u>29,848</u>	<u>(4,338)</u>	<u>128,511</u>
Operating income	15,461	2,760		18,221
Earnings in consolidated subsidiaries	867		(867)	
Other income (expense):				
Interest income	308	206	(233)	281
Interest expense	(6,623)	(246)	233	(6,636)
Rainbow royalty	1,586	(1,586)		
Minority interest	(445)			(445)
Other, net	34	(105)		(71)
	<u>11,188</u>	<u>1,029</u>	<u>(867)</u>	<u>11,350</u>
Income before income taxes	11,188	1,029	(867)	11,350
Income tax provision	(4,930)	(162)		(5,092)
	<u>\$ 6,258</u>	<u>\$ 867</u>	<u>\$ (867)</u>	<u>\$ 6,258</u>
Net income	\$ 6,258	\$ 867	\$ (867)	\$ 6,258

See accompanying unaudited note.

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

CONSOLIDATING STATEMENTS OF CASH FLOWS

Three Months Ended September 30, 2001

(In 000 s)

	Parent and Guaranteeing Subsidiaries	Non- Guaranteeing Subsidiaries	Elimina- tions	Alliance Gaming Corporation and Subsidiaries
Net cash provided by (used in) operating activities	\$ 5,343	\$ 6,633	\$(2,893)	\$ 9,083
Cash flows from investing activities:				
Additions to property, plant and equipment	(3,158)	(292)		(3,450)
Additions to leased gaming equipment	(2,887)			(2,887)
Proceeds from disposal of property and equipment and other assets	12	4		16
Additions to other long term assets	(1,305)			(1,305)
Net cash used in investing activities	(7,338)	(288)		(7,626)
Cash flows from financing activities:				
Reduction of long-term debt	(4)	(3,012)	2,893	(123)
Proceeds from exercise of stock options	1,166			1,166
Dividends received (paid)	911	(911)		
Net cash provided by (used in) financing activities	2,073	(3,923)	2,893	1,043
Effect of exchange rate changes on cash		194		194
Cash and cash equivalents:				
Increase for period	78	2,616		2,694
Balance, beginning of period	41,502	13,343		54,845
Balance, end of period	\$41,580	\$ 15,959	\$	\$57,539

See accompanying unaudited note.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATING STATEMENTS OF CASH FLOWS

Three Months Ended September 30, 2002
(In 000 s)

	Parent and Guaranteeing Subsidiaries	Non- Guaranteeing Subsidiaries	Elimina- tions	Alliance Gaming Corporation and Subsidiaries
Net cash provided by (used in) operating activities	\$ 10,701	\$ 7,874	\$(5,954)	\$ 12,621
Cash flows from investing activities:				
Additions to property, plant and equipment	(3,033)	(1,249)		(4,282)
Additions to leased gaming equipment	(4,750)			(4,750)
Proceeds from disposal of property and equipment and other assets	8			8
Additions to other long term assets	(2,958)	(18)		(2,976)
Net cash used in investing activities	(10,733)	(1,267)		(12,000)
Cash flows from financing activities:				
Reduction of long-term debt	(4,076)	(3,066)	5,990	(1,152)
Bally Austria APIC		36	(36)	
Proceeds from exercise of stock options	575			575