

Bally

MICROFILMED BY
Q-DATA
ST. PETERSBURG, FL U.S.A.

Manufacturing Corporation

8700 West Bryn Mawr Avenue
Chicago, Illinois 60631

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 14, 1985

To Our Stockholders:

Notice is hereby given of the Annual Meeting of Stockholders of Bally Manufacturing Corporation to be held in the Archer Room of The Westin Hotel, O'Hare, 6100 River Road, Rosemont, Illinois, on May 14, 1985 at 2:30 p.m. (local time) to consider and act upon the following matters which are more fully described in the accompanying Proxy Statement:

1. The election of three directors of Class II for three-year terms expiring in 1988.
2. The approval of the Company's 1985 Stock Option and Stock Appreciation Right Plan.
3. Such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record as of the close of business on March 21, 1985 will be entitled to notice of and to vote at the meeting. The transfer books will not be closed.

The Board of Directors of the Company desires to have the maximum representation at the meeting and respectfully requests that you date, execute and mail promptly the enclosed proxy in the enclosed stamped envelope for which no additional postage is required if mailed in the United States. A proxy may be revoked by a stockholder by notice in writing to the Secretary of the Company or the secretary of the meeting at any time prior to its use.

By Order of the Board of Directors,

GLENN K. SEIDENFELD, JR.
Vice President and Secretary

Chicago, Illinois
March 22, 1985

YOUR VOTE IS IMPORTANT!
MANY OF OUR STOCKHOLDERS OWN 100 SHARES OR LESS.
PLEASE EXECUTE AND RETURN THE ENCLOSED
PROXY CARD PROMPTLY IN THE RETURN ENVELOPE PROVIDED.

A



Manufacturing Corporation

8700 West Bryn Mawr Avenue
Chicago, Illinois 60631

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

May 14, 1985

To Our Stockholders:

This Proxy Statement is furnished to stockholders of Bally Manufacturing Corporation (the "Company") for use at the Annual Meeting of Stockholders on May 14, 1985, or at any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. The enclosed proxy is solicited on behalf of the Board of Directors of the Company and is subject to revocation at any time prior to the voting of the proxy by notice in writing to the Secretary of the Company or the secretary of the meeting. Unless a contrary choice is indicated, all duly executed proxies received by the Company will be voted for the election of nominees for director and for approval of the Company's 1985 Stock Option and Stock Appreciation Right Plan. The approximate date on which this Proxy Statement and the enclosed proxy are first being sent to stockholders is April 1, 1985.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The total outstanding stock of the Company as of March 21, 1985 consisted of 26,941,739 shares of Common Stock, par value 66 $\frac{2}{3}$ ¢ ("Common Stock"). All shares of Common Stock are entitled to one vote per share. The record of stockholders entitled to notice of and to vote at the Annual Meeting was taken at the close of business on March 21, 1985.

According to documents filed with the Securities and Exchange Commission, Associated Madison Companies, Inc. ("Associated Madison"), a wholly-owned subsidiary of American Can Company ("American Can"), pursuant to an investment advisory agreement between certain subsidiaries of American Can and American Capital Asset Management, Inc., a mutual fund, beneficially owns, as fiduciary, 1,750,000 shares or 6.5% of the outstanding Common Stock; however, American Can and Associated Madison disclaim beneficial ownership of the Common Stock owned by the mutual fund.

To the knowledge of the Company, on March 1, 1985, no other person owned of record or beneficially more than five percent of the Company's voting securities.

ELECTION OF DIRECTORS

At the Annual Meeting, three directors of Class II are to be elected for a three-year term expiring in 1988 and until their successors shall have been duly elected and qualified. Set forth below are the names of, and certain information with respect to, the persons nominated by the Board of Directors

of the Company for election as directors of Class II. It is intended that the proxies in the accompanying form will be voted for the election of such nominees, unless such authorization has been withheld.

Authority granted to the persons named in the proxy to vote for nominees is limited to the three nominees proposed by the Board of Directors and named below, and proxies cannot be voted for a greater number of persons than the number of nominees named. The Board of Directors is not aware that any of the nominees will be unavailable for service at the date of the meeting. If, for any reason, any of the nominees shall become unavailable for election, an event which is not presently anticipated, discretionary authority may be exercised by the persons named in the proxy to vote for substitute nominees proposed by the Board of Directors.

The directors of Class I (except for Mr. Linkletter who was elected by the directors in July, 1984, to fill a vacancy on the Board, for a term expiring in 1987) were elected at the 1984 Annual Meeting for a three-year term expiring in 1987 and the directors of Class III (except for Mr. Nichols who was elected by the directors in March, 1984, to fill a vacancy on the Board, for a term expiring in 1986) were elected at the 1983 Annual Meeting for a three-year term expiring in 1986. Information regarding the nominees for election and the continuing directors, furnished in part by each such person, appears below:

NOMINEES

Class II For a Term Expiring in 1988

Name, Age, Principal Occupation and Additional Information	Has Served as Director Since	Number of Shares of Common Stock Beneficially Owned as of March 1, 1985(1)(2)(3)	Percent of Class(2)	Number of Common Stock Purchase Warrants Beneficially Owned as of March 1, 1985(1)	Percent of Class	Number of Shares of Common Stock of Bally's, Park Place, Inc. Beneficially Owned as of March 1, 1985(1)	Percent of Class
George N. Aronoff, 51, Partner in the Cleveland law firm of Benesch, Fried- lander, Coplan & Aronoff(4)	1979	500	*	16	*	2,158	*
Patrick L. O'Malley, 74, Chairman of the board of directors of Michigan Ave- nue National Bank; for- merly president and chief executive officer and pres- ently chairman emeritus of Canteen Corporation and director emeritus of Trans World Corporation(5)	1981	1,400	*	13	*	—	*
Barry Diller, 43, Chairman of the board of directors and chief execu- tive officer of 20th Century Fox Film Corporation; for- merly president of the en- tertainment/communication group of Gulf + Western Industries, Inc.(6)	1984	1,000	*	—	*	—	*

CONTINUING DIRECTORS

**Class I
Term Expiring in 1987**

Name, Age, Principal Occupation and Additional Information	Has Served as Director Since	Number of Shares of Common Stock Beneficially Owned as of March 1, 1985(1)(2)(3)	Percent of Class(2)	Number of Common Stock Purchase Warrants Beneficially Owned as of March 1, 1985(1)	Percent of Class	Number of Shares of Common Stock of Bally's Park Place, Inc. Beneficially Owned as of March 1, 1985(1)	Percent of Class
James M. Rochford, 63, Vice President of the Company(5)	1981	1,924	*	—	*	—	*
James R. Cowan, M.D., 68, President of United Hospital Medical Center, Newark, New Jersey; director of Bally's Park Place, Inc.; Dr. Cowan is also a director of Howard Savings Bank, New Jersey Bell Telephone Company and Public Service Electric and Gas Company	1983	—	*	—	*	200	*
Alfred C. Linkletter, 73, Real estate and construction consultant; formerly senior vice president of the Prudential Insurance Company of America; director of Bally's Park Place, Inc.; Mr. Linkletter is also a director of Triangle Industries, Inc. and Bradley Real Estate Trust(7)	1984	400	*	13	*	63	*

CONTINUING DIRECTORS

Class III Term Expiring in 1986

Name, Age, Principal Occupation and Additional Information	Has Served as Director Since	Number of Shares of Common Stock Beneficially Owned as of March 1, 1985(1)(2)(3)	Percent of Class(2)	Number of Common Stock Purchase Warrants Beneficially Owned as of March 1, 1985(1)	Percent of Class	Number of Shares of Common Stock of Bally's Park Place, Inc. Beneficially Owned as of March 1, 1985(1)	Percent of Class
Robert E. Mullane, 52, President, chief executive officer and chairman of the board of directors of the Company; director of Bally's Park Place, Inc.; chairman of the Executive Committee.(5)	1979	66,236	.2	1,583	.1	1,000	*
Walter Wechsler, 71, Governmental and fiscal affairs consultant; formerly Comptroller of the Treas- ury, Budget Director and Chief Fiscal Officer of the State of New Jersey; direc- tor of Bally's Park Place, Inc.	1981	600	*	10	*	100	*
Kenneth C. Nichols, 61, President and chief execu- tive officer of Home Life Insurance Company; mem- ber of the Advisory Board of Chemical Bank	1984	400	*	—	*	—	*
All officers and directors as a group(3)(4)		93,150	.3	1,868	.2	4,584	*

* Less than one-tenth of one percent.

- (1) Includes, in certain instances, shares and/or warrants held in the name of the nominee's or director's spouse, minor children, or relatives sharing his home, the reporting of which is required by applicable rules of the Securities and Exchange Commission, but as to which shares and/or warrants the nominee or director may have disclaimed beneficial ownership.
- (2) Does not include the following number of shares of the Common Stock which such persons have or had, within 60 days after March 1, 1985, the right to acquire upon the exercise of options: Mr. Rochford, 28,023; Mr. Mullane, 87,400; and all officers and directors, including the above, as a group, 267,882.
- (3) Includes the following number of whole shares held pursuant to the Company's Employee Profit Sharing Plan, Employee Stock Ownership Plan and Employees' Savings Plan as of March 1, 1985: Mr. Mullane, 5; Mr. Rochford, 924; and all officers and directors as a group, 6,047.
- (4) Mr. Aronoff also owned as of March 1, 1985, \$14,000 principal amount of the Company's 6% Convertible Subordinated Debentures Due 1998. No other person named above owned any such Debentures and all officers and directors as a group owned as of March 1, 1985, \$20,000 principal amount of such Debentures.
- (5) Member of Executive Committee.
- (6) Mr. Diller was elected by the directors in March, 1984 to fill a vacancy on the Board.
- (7) Mr. Linkletter previously served as a director of the Company.

INFORMATION RELATING TO THE BOARD OF DIRECTORS AND CERTAIN COMMITTEES OF THE BOARD

The Board of Directors of the Company held seven meetings during 1984. Each incumbent director (with the exception of Mr. Diller) attended at least 75% of the aggregate number of meetings of the Board of Directors and all committees on which he served during 1984 or the portion of the year during which he served as a director.

The Board of Directors of the Company has, in addition to its Executive Committee, which may exercise all the powers of the Board of Directors to the extent permitted by law, an Audit Committee, a Nominating Committee and a Compensation and Stock Option Committee. The general functions of such Board committees, the identity of each committee member and the number of committee meetings held by each committee during the last fiscal year are set forth below:

Audit Committee

The Audit Committee held three meetings during 1984. The current members of the Audit Committee are Messrs. O'Malley, Chairman, Nichols and Wechsler. The general functions of the Audit Committee include selecting the independent auditors (or recommending such action to the Board of Directors), evaluating the performance of the independent auditors and their fees for services, reviewing the scope of the annual audit with the independent auditors and the results of the audit with management and the independent auditors, consulting with management, internal auditors, and the independent auditors as to the systems of internal accounting controls, and reviewing the non-audit services performed by the independent auditors and considering the effect, if any, on their independence.

Nominating Committee

The Nominating Committee did not hold a meeting during 1984. The current members of the Nominating Committee are Mr. Wechsler, Chairman, Dr. Cowan and Messrs. Linkletter and Mullane. The general functions of the Nominating Committee include selecting or recommending to the Board of Directors nominees for election as directors, consideration of the performance of incumbent directors in determining whether to nominate them for re-election and making recommendations with respect to the organization and size of the Board and its committees. The Nominating Committee will consider nominees recommended by stockholders. Such a recommendation will be considered if submitted in writing, addressed to the Company c/o "Chairman, Nominating Committee", accompanied by a description of the proposed nominee's qualifications and other relevant biographical information, and a written indication of the consent of the proposed nominee. Candidates for nomination as director are considered on the basis of their broad business, financial and public service experience, and should not represent any particular constituency, but rather the stockholders generally. The nominees should be highly regarded for capability and integrity within their fields or professions. In addition, the activities or associations of the nominees should not constitute conflicts of interest or legal impediments that might preclude service as a Company director. Moreover, nominees must be able, and have expressed a willingness, to devote the time required to serve effectively as a director and as a member of one or more Board committees.

Compensation and Stock Option Committee

The Compensation and Stock Option Committee held four meetings during 1984. The current members of the Compensation and Stock Option Committee are Dr. Cowan, Chairman, Messrs. Aronoff, Diller and Mullane (Mr. Mullane as to compensation matters only). The general functions of the Compensation and Stock Option Committee include approval (or recommendation to the Board) of the compensation arrangements for senior management, directors and other key employees, review of benefit plans in which officers and directors are eligible to participate and periodic review of the stock option plans of the Company and the granting of options under such plans.

Members of the Board of Directors who are also employees of the Company do not receive any additional compensation for their service on the Board or any committees of the Board. The members of the Board of Directors who are not employees currently receive an annual retainer of \$25,000 plus a \$2,000 stipend (a \$1,000 stipend prior to September, 1984) for each meeting attended. Non-employee directors receive additional stipends for service on committees of the Board in the amount of \$500 per year for committee members and \$2,500 per year for committee chairmen.

During 1984, the Company and its subsidiaries paid approximately \$1,100,000 to the law firm of Benesch, Friedlander, Coplan & Aronoff, of which George N. Aronoff, a director of the Company, is a partner, for legal services rendered. The Company proposes to retain such firm during the current year.

COMPENSATION OF AND STOCK OPTION INFORMATION RELATING TO EXECUTIVE OFFICERS FOR THE YEAR 1984

Compensation

The following table sets forth compensation paid or accrued by the Company and its subsidiaries during 1984 for services in all capacities to each of the five most highly compensated executive officers of the Company who earned in excess of \$60,000, and to all executive officers of the Company as a group:

Name of Individual or Number in Group	Capacities in Which Served	Cash Compensation	
		Salary	Bonus
Robert E. Mullane	President, Chief Executive Officer and Chairman of the Board of Directors	\$ 592,222(1)	\$ —
Donald B. Romans	Executive Vice President and Chief Financial Officer	255,605(2)	—
Roger N. Keesee	Executive Vice President and Chief Operating Officer	250,000(3)	—
Michael T. Lyon	Vice President	182,216	—
Charles T. Powell	Vice President	127,185(4)	50,000
13 executive officers as a group (5)		\$2,281,578	\$50,000

- (1) Mr. Mullane entered into a five-year employment contract effective January 1, 1981 to serve as President, Chief Executive Officer and Chairman of the Board of Directors at an annual base salary of \$450,000 plus a cost of living adjustment. Mr. Mullane's employment contract was amended in August, 1984, to extend its term for an additional four years and to compensate Mr. Mullane at the annual rate of \$450,000 from January 1, 1981 through and including June 30, 1984, \$650,000 through and including December 31, 1985, and \$700,000 for the remainder of the contract term.
- (2) Mr. Romans entered into a three-year employment contract effective May 1, 1982, as amended, to serve as Executive Vice President and Chief Financial Officer at an annual salary of \$250,000.
- (3) Mr. Keesee entered into a three-year employment contract effective September 1, 1983 to serve as Executive Vice President at an annual salary of \$250,000. In February, 1985 Mr. Keesee was named Chief Operating Officer and his employment contract was amended to extend its term for an additional one and one-half years and to compensate Mr. Keesee at the annual rate of \$325,000.
- (4) Mr. Powell entered into a three-year employment contract effective June 1, 1982, as amended, to serve as Vice President at an annual salary of \$125,000.
- (5) Information is included for each person in the group only for the portion of the year during which such person was a member of the group.

The Board of Directors, in August, 1983, determined that it would be in the best interests of the Company to enter into agreements with Messrs. Mullane, Romans, Keesee and Lyon which provide, among other things, that if any person acquires 25% or more of the Company's outstanding voting securities or if, under certain circumstances, there is a change in the composition of the Board of Directors, and the employment of any such employee is terminated for any reason other than death, disability, retirement or cause, then the Company is obligated to pay such employee an amount equal to 250% of his average annual compensation (salary plus bonuses) for the two calendar years immediately preceding such termination. In addition, for a two and one-half year period following any such termination, such employee will also be entitled to continue to participate in all benefit and insurance programs, reduced to the extent he receives comparable benefits from other sources during that period.

COMPENSATION PURSUANT TO PLANS

Employee Profit-Sharing Plan

Under the provisions of the Company's Profit-Sharing Plan (the "Plan") established in 1966, the Company may contribute to the Plan an annual amount determined by the Board of Directors, not exceeding the maximum amount deductible for Federal income tax purposes. All full-time salaried employees who have completed one year of service with the Company and have attained the age of 21 are participants in the Plan. The Company's contributions are allocated, pro rata, annually among participants' accounts based upon compensation received during the year for which the contribution is made. Amounts allocated to an employee's Plan account vest on the basis of 40% after four years of service and 10% per year thereafter with full vesting of contributions when an employee has completed 10 years of service under the Plan or has attained age 65. Employees who were participants under the Plan on December 31, 1983 will vest at the rate of 10% per year beginning with the first year of service. Benefits are generally payable only on termination of employment or retirement.

Following are the approximate cash values of shares of Common Stock (as of the date of contribution) contributed by the Company to the Plan during the last fiscal year and allocated to the Plan accounts of the executive officers named in the cash compensation table above, and all executive officers as a group: Mr. Powell, \$7,911; and all executive officers as a group, \$58,468. During the last five fiscal years, the Company has contributed cash and Common Stock having a value (as of the date of contribution) of \$10,395,253 to the Plan of which allocations, consisting of Company contributions and forfeitures from other accounts, of \$783,417 were made to the accounts of all current executive officers as a group. Amounts allocated to the Plan accounts of the executive officers named in the cash compensation table above during such period were as follows: Mr. Mullane, \$190,536; Mr. Romans, \$38,609; Mr. Keesee, \$11,852; Mr. Lyon, \$27,988; Mr. Powell, \$53,917.

ERISA Excess Plan

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes a limitation on the maximum benefits which may be provided annually to a participant under the Plan, the Company's Pension Plan and the Company's Savings Plan. Under the provisions of the unfunded non-qualified ERISA Excess Plan (the "EEP") established in 1982, the Company provides benefits which participants in the EEP would have been entitled to receive under the Company's employee benefit plans but for the annual limitations imposed by ERISA. Participation in the EEP is limited to certain key executives designated by the Compensation and Stock Option Committee of the Board of Directors. Vesting under the EEP is determined on the same basis as under the Plan, the Company's Pension Plan and the Company's Savings Plan. Benefits are generally payable under the EEP only on termination of employment or retirement.

Following are the approximate amounts accrued by the Company for the EEP during the last fiscal year and allocated to the EEP accounts of the executive officers named in the cash compensation table above, and all executive officers as a group: Mr. Mullane, \$72,336; Mr. Romans, \$22,616; Mr. Keesee, \$16,538; Mr. Lyon, \$16,415; Mr. Powell, \$1,065; and all executive officers as a group, \$133,529. During the last five fiscal years, the Company has accrued \$548,695 under the EEP of which allocations of \$415,011 were accrued for the accounts of all current executive officers as a group. Amounts credited to the accounts of the executive officers named in the cash compensation table above during such period were as follows: Mr. Mullane, \$353,818; Mr. Romans, \$22,616; Mr. Keesee, \$16,538; Mr. Lyon, \$16,415; Mr. Powell, \$1,065.

Employee Stock Ownership Plan

Under the provisions of the Company's Employees' Stock Ownership Plan (the "PAYSOP") established in 1983, the Company may contribute shares of Common Stock or cash equal to the value of such shares of Common Stock. Such contribution may not exceed an annual amount equal to the percentage of the total payroll for all of the participants covered under the PAYSOP which is available for a Federal income tax credit. All full-time salaried employees who have completed one year of service with the Company are participants in the PAYSOP. All contributions in cash to the PAYSOP must be used by the Trustee to purchase Common Stock. The Company's annual contribution is allocated equally among participants' accounts. PAYSOP participants are fully vested in their accounts at all times and Common Stock allocated to a participant's account may not be forfeited. Benefits are generally payable only on termination of employment or retirement.

The approximate cash value of shares of Common Stock to be contributed by the Company to the PAYSOP for the last fiscal year and allocated to the PAYSOP accounts of all executive officers as a group, including the executive officers named in the cash compensation table above, is less than \$2,000. During the last five fiscal years, allocations of the Company's PAYSOP contributions (including allocations for the last fiscal year) to the accounts of all current executive officers as a group had a cash value (as of the date of contribution) of less than \$4,000, and total Company contributions were approximately \$823,000.

Employees' Savings Plan

Effective January 1, 1984, the Company established the voluntary Employees' Savings Plan (the "Savings Plan"). Under the provisions of the Savings Plan, each participant may contribute up to 6% of his pre-tax compensation as a basic contribution. The Company may, in its discretion, make a contribution not exceeding 50% of the basic contribution. Each participant may also elect to make an additional contribution of up to 4% of pre-tax compensation. Both the basic and additional contributions are intended to be tax deferred. In addition, the Company may contribute to the Savings Plan an annual amount determined by the Board of Directors, not exceeding the maximum amount deductible for federal income tax purposes. All full-time salaried employees, who have completed one year of service with the Company, are participants in the Savings Plan. Both the Company's and participant's contributions allocated to a participant's plan account are at all times 100% vested. Benefits are generally payable only on termination of employment or retirement.

Following are the approximate cash values of shares of Common Stock contributed by the Company to the Savings Plan during the last fiscal year and allocated to the Savings Plan accounts of the executive officers named in the cash compensation table above, and all executive officers as a group: Mr. Keesee, \$1,705; Mr. Powell, \$3,187; and all executive officers as a group, \$21,573.

Employees' Pension Plan

Effective January 1, 1984, the Company established the Employees' Pension Plan (the "Pension Plan"), a non-contributory defined benefit plan designed to provide retirement benefits for its employees. All full-time salaried employees, including the executive officers named in the cash compensation table, who have completed one year of service with the Company and have attained the age of 21 are participants in the Pension Plan, provided that no employee hired prior to January 1, 1984 is required to meet the minimum age requirement to participate. A participant is fully vested in his accrued benefit after the completion of ten years of service under the Pension Plan, or on attainment of age 65. Benefits under the Pension Plan are equal to the product of: (a) the sum of 1.1% of a participant's final average earnings not in excess of his average Social Security earnings and 1.4% of a participant's final average earnings in excess of Social Security earnings times (b) years of service after December 31, 1983. Final average earnings are defined as the average earnings in the five consecutive years falling within the last ten years of employment prior to retirement in which earnings are the highest. A participant who was a participant in the Plan prior to 1984 will receive an additional benefit from the Pension Plan if the actuarially determined benefit which could be purchased by his Plan balance as of December 31, 1983 is less than the benefit calculated for that individual under the aforementioned formula taking into account such participant's years of service prior to 1984. Generally, benefits are only payable upon termination of employment or retirement.

The following are the estimated credited years of service (calculated from the effective date of the Pension Plan until normal retirement of each participant at age 65) under the Pension Plan for each of the executive officers named in the cash compensation table: Mr. Mullane, 13 years; Mr. Romans, 12 years; Mr. Keesee, 17 years; Mr. Lyon, 24 years; and Mr. Powell, 23 years. Benefits are calculated based on a straight life annuity without offset for Social Security. An example of the annual benefits provided under the Pension Plan is set forth in the following table:

Pension Table

Remuneration	Years of Service			
	10	15	20	25
\$ 100,000	\$ 13,401	\$ 19,889	\$ 26,248	\$ 32,497
250,000	34,400	51,389	68,248	84,997
500,000	69,401	103,889	138,248	172,497
750,000	104,401	156,389	208,248	259,997
1,000,000	139,401	208,889	278,248	347,497

Supplemental Executive Retirement Plan

In 1982, the Company established a Supplemental Executive Retirement Plan (the "SERP") which fixed a minimum level for retirement benefits based upon the participant's years of service with the Company and his average annual compensation during the three consecutive years, falling within the last ten years of the participant's employment (or total employment if less than 10 years), in which such compensation is highest ("Average Compensation"). Participants under the SERP are entitled to receive an annual SERP benefit equal to 3.33% of Average Compensation for each year of service (subject to a maximum of 15 years of service to be credited to any participant) reduced by benefits payable under the Plan, the EEP, the Pension Plan, the Savings Plan, Social Security and any other retirement benefits paid by the Company. Participation in the SERP is limited to certain key executives designated by the

Compensation and Stock Option Committee of the Board of Directors and includes the executive officers named in the cash compensation table. Benefits under the SERP are payable upon retirement or disability or to a participant's spouse upon a participant's death provided certain conditions are met. Generally, a participant who terminates employment for reasons other than retirement, disability or death will receive no benefit from the SERP; however, under certain circumstances, in the case of unusual corporate events such as certain changes in control of the Company, participants may be entitled to benefits under the SERP on an accelerated basis. Benefits payable to a surviving spouse are equal to 50% of the benefit which would have been payable to the participant but are not reduced by the amount of any life insurance benefits paid to the surviving spouse. Benefits payable under the SERP may be cancelled in the event a participant engaged in conduct detrimental to the best interests of the Company. The SERP is unfunded and not qualified under ERISA.

The following are the estimated credited years of service (calculated from the date of employment by the Company until normal retirement of each participant at age 65) under the SERP for each of the executive officers named in the cash compensation table: Mr. Mullane, 24 years; Mr. Romans, 14 years; Mr. Keesee, 18 years; Mr. Lyon, 26 years; and Mr. Powell, 38 years.

Benefits are calculated based on a straight life annuity without offset for Social Security. An example of the benefits provided under the SERP is set forth in the following table:

SERP Table

Remuneration	Years of Service(1)	
	10	15 or over
\$ 100,000	\$ 33,333	\$ 50,000
250,000	83,333	125,000
500,000	166,666	250,000
750,000	250,000	375,000
1,000,000	333,333	500,000

- (1) The amounts set forth above will be reduced by benefits payable under the Plan, the EEP, the Pension Plan, the Savings Plan, Social Security and other retirement benefits paid by the Company.

1982 Stock Option Plan

The Company's 1982 Stock Option Plan (the "1982 Plan"), effective July 23, 1982, was approved by the Company's stockholders at the 1983 Annual Meeting. Under the Plan, 1,300,000 shares of Common Stock were authorized for issuance upon exercise of incentive stock options and non-qualified stock options. Pursuant to the 1982 Plan, the Compensation and Stock Option Committee of the Board of Directors (excluding those members eligible to receive options under the 1982 Plan) selects those officers and key employees who are eligible to receive options, the number of shares to be optioned to each and the period during which the options may be exercised. The options are granted at no less than 100% of the average market price of the Common Stock on the New York Stock Exchange on the date of the grant. Options granted under the 1982 Plan may be granted with an exercise term of no more than ten years. The 1982 Plan will terminate on July 23, 1992 and no options will be granted under the 1982 Plan after such date, provided, however, if the proposal to approve the Company's 1985 Stock Option and Stock Appreciation Right Plan is approved by the stockholders at the Annual Meeting, no additional options will thereafter be granted under the 1982 Plan.

The following tabulations show, as to the executive officers named in the cash compensation table above and all executive officers as a group, information with respect to the Company's stock options:

<u>Stock Options</u>	<u>Robert E. Mullane</u>	<u>Donald B. Romans</u>	<u>Roger N. Keesee</u>	<u>Michael T. Lyon</u>	<u>Charles T. Powell</u>	<u>All Executive Officers as a Group (13)</u>
Granted—January 1, 1980 to March 1, 1985:						
Number of stock options	240,000	75,000	50,000	40,000	40,000	735,500
Average per share exercise price	\$ 21.09	\$ 23.71	\$ 19.72	\$ 21.69	\$ 21.61	\$ 21.21
Granted—January 1, 1984 to December 31, 1984:						
Number of stock options	50,000	25,000	25,000	15,000	15,000	220,000
Average per share exercise price	\$ 16.625	\$ 16.625	\$ 16.625	\$ 16.625	\$ 16.625	\$ 16.625
Exercised—Net value realized in shares (market value less exercise price) or cash:						
January 1, 1980 to March 1, 1985	\$125,505	\$ —	\$ —	\$ —	\$ —	\$625,338
January 1, 1984 to December 31, 1984	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

During the period January 1, 1980 through March 1, 1985, the Company granted, in the aggregate, options covering 2,105,650 shares of Common Stock to officers and employees (other than the 13 executive officers) of the Company and its subsidiaries. The weighted average option price per share for all such options was \$21.63. During the same period, officers and employees (other than the 13 executive officers) exercised options for which the net value realized was \$7,217,358.

The Board of Directors previously had a policy of considering loans to officers of the Company on an *ad hoc* basis upon request therefor for the purpose of facilitating the exercise of stock options (excluding incentive stock options) granted by the Company. Under this policy, any such loans were to be evidenced by promissory notes due and payable in not more than four years, except that the promissory notes could become, at the Company's election, due and payable on 90 days written notice upon certain terminations of employment. The notes do not bear interest until the closing per share price of the Common Stock for a period of 30 consecutive trading days commencing after one year from the applicable option exercise date is at least 15% higher than such price on the date of exercise, at which time the notes will commence bearing interest at a fluctuating rate equal to the prime rate (as defined) plus 1%.

Pursuant to such policy, loans were made to Mr. Mullane during 1982 and 1983, under which at March 1, 1985, \$1,347,940 remained outstanding. The highest principal balance of such loans outstanding during the last fiscal year was \$1,347,940. Mr. Jerry Blumenshine, a Vice President, received a loan in 1983, the highest principal balance of which during 1984 was \$164,718. At March 1, 1985, \$164,718 of Mr. Blumenshine's loan remained outstanding. During the last fiscal year no other loans granted pursuant to the policy were outstanding.

In 1985, the Board of Directors, through its Compensation and Stock Option Committee, discontinued the above-described loan policy.

Insurance

The Company maintains executive life insurance and medical reimbursement plans for officers and certain other key employees which provide life and medical insurance coverage during employment. The following is an estimate of premium costs as to these plans as allocated to the executive officers named in the cash compensation table above and all executive officers as a group: Mr. Mullane, \$43,880; Mr. Romans, \$29,026; Mr. Keesee, \$16,589; Mr. Lyon, \$16,599; Mr. Powell, \$13,612; and all executive officers as a group, \$225,043.

Other Compensation

Except for Mr. Keesee's use during 1984 of a furnished apartment residence and his transportation expenses occasioned by his relocation to the Chicago area and his use of a Company-owned automobile, valued at their cost to the Company of \$34,914, this Proxy Statement does not describe certain non-cash compensation made available to executive officers during 1984, because such compensation is below the Securities and Exchange Commission disclosure threshold.

INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS

In November, 1982, the Company advanced \$150,000 to Mr. Powell as part of a relocation agreement to assist Mr. Powell in the purchase of a new residence after relocating to the Chicago area. The loan is due and payable on November 22, 1987, or 120 days following severance of Mr. Powell's employment or upon sale of his residence. The loan bears interest at an annual rate of 5%. The highest amount of such loan outstanding during the last fiscal year was \$157,500. At March 1, 1985, \$151,250 was outstanding.

During 1984, the Company paid approximately \$154,000 to the firm of Paul J. Johnson Associates, Inc., of which Mr. Paul J. Johnson, Treasurer of the Company, is sole shareholder, for financial consulting services rendered by Mr. Johnson prior to his election as Treasurer in September, 1984.

On January 6, 1984, the Company entered into an agreement with William T. O'Donnell (father-in-law of Mr. Seidenfeld, Vice President, Secretary and General Counsel of the Company), the substance of which was unanimously approved by the Company's Board of Directors on January 4, 1984, and unanimously approved by the New Jersey Casino Control Commission on February 29, 1984, pursuant to which the Company on March 30, 1984, purchased all of the shares of Common Stock and Bally's Park Place, Inc. common stock then owned by Mr. O'Donnell (the "1984 Agreement"). Under the terms of the 1984 Agreement, Mr. O'Donnell received \$25 for each of his 693,680 shares of Common Stock and \$15 for each of his 43,803 shares of Bally's Park Place common stock. The Company agreed to bear the cost of defending Mr. O'Donnell in any action arising out of the 1984 Agreement. On January 6, 1984, the market value of the Common Stock was \$21 and the market value of Bally's Park Place common stock was \$14.125. As part of the 1984 Agreement, Mr. O'Donnell (i) dismissed with prejudice certain federal litigation instituted on his behalf against the Commission arising out of the Commission's 1980 Order holding that Mr. O'Donnell had not qualified for licensure under the New Jersey Casino Control Act which resulted in Mr. O'Donnell's resignation as Chairman and President of the Company and (ii) agreed not to acquire, directly or indirectly, any securities of the Company.

During January and February, 1984, eight lawsuits were filed by stockholders of the Company purporting to sue on behalf of the Company. In August, 1984, the ninth of such lawsuits was filed in Illinois. Five of the lawsuits, filed in the Court of Chancery of the State of Delaware, were consolidated by order of the Delaware court. Three other lawsuits filed in the United States District Court for the District of New Jersey were consolidated by order of the New Jersey court. One lawsuit was filed in United States District Court for the Northern District of Illinois. In August and September, 1984, the plaintiffs filed amended and consolidated complaints in the Delaware, New Jersey and Illinois actions. The defendants are the directors of the Company, a former director, and Mr. O'Donnell. The Company is also named as a nominal defendant. The plaintiffs in the suits are Eli Ballan, Isabel Heffler, R. P. Barroway, Fredrick Rand, Harry Lewis, Harriette Tabas and Dixie J. O'Neill. At issue in the suits are four agreements between the Company and Mr. O'Donnell. In November, 1979, the Company entered into a five-year employment agreement with Mr. O'Donnell (the "Employment Agreement"). In February, 1981, the Company entered into an agreement to pay Mr. O'Donnell \$2,112,000 in full

full settlement of his Employment Agreement (the "1981 Agreement"). In July, 1983, the Company purchased its prior corporate headquarters which it had leased from a partnership in which Mr. O'Donnell had a 2/7 interest for an aggregate purchase price of \$1,900,000 plus a lease termination charge of \$292,000 (the "1983 Agreement"). The suits allege that the Employment Agreement, the 1981 Agreement, the 1983 Agreement and the 1984 Agreement were not in the best interest of the Company, constituted a breach of fiduciary duty and waste of corporate assets, and were approved by the director-defendants to preserve their respective positions within the Company. The Illinois action, which contained allegations similar to the other actions as well as additional allegations, was dismissed without prejudice. In March, 1985, the plaintiff in the Illinois action filed another complaint in the Circuit Court of Cook County, Illinois. The complaints seek, among other matters: (i) rescission of the 1981 Agreement, (ii) rescission of the 1984 Agreement, (iii) damages, (iv) attorneys' fees and expenses and (v) other unspecified relief. In January, 1985, the federal court in New Jersey granted the director-defendants' motion to dismiss plaintiffs' complaint as to those allegations concerning the Employment Agreement, the 1981 Agreement and the 1983 Agreement. The director-defendants have informed the Company that they are vigorously contesting these actions and deny the validity of the purported claims. In accordance with applicable Delaware law, the Company is currently paying the legal expenses of the individual director-defendants, who have agreed to reimburse the Company should they be found not entitled to indemnification.

PROPOSAL TO APPROVE THE COMPANY'S 1985 STOCK OPTION AND STOCK APPRECIATION RIGHT PLAN

General

The Board of Directors of the Company has adopted Bally Manufacturing Corporation's 1985 Stock Option and Stock Appreciation Right Plan (the "1985 Plan") effective February 22, 1985, subject to the approval of the stockholders. No options or stock appreciation rights will be granted under the 1985 Plan until and unless the 1985 Plan is approved by the Company's stockholders.

The Board of Directors believes that stockholder approval of the 1985 Plan is desirable because the 1985 Plan will increase the incentive for officers and employees who may be granted awards under the 1985 Plan to improve the financial performance of the Company. Furthermore, the availability and offering of stock options and stock appreciation rights to such employees strengthens the ability of the Company to attract and retain key executives.

The complete text of the 1985 Plan is set forth in Exhibit "A" to this Proxy Statement. The following summary of the material features of the 1985 Plan does not purport to be complete and is qualified in its entirety by reference to Exhibit "A".

Eligibility

In general, only officers and key employees of the Company and its present and future subsidiaries are eligible to receive options and stock appreciation rights under the 1985 Plan. The Compensation and Stock Option Committee of the Board of Directors (the "Committee") will administer the 1985 Plan and will select those employees to whom awards of options and stock appreciation rights under the 1985 Plan ("Awards") will be granted, will set the number of options and rights awardable and will determine the periods during which the Awards may be exercised. No stock options may be granted, however, after February 21, 1995.

Stock Options

A stock option is a right granted by the Committee to purchase a specified number of shares of Common Stock from the Company at a price equal to the fair market value of those shares on the date the option is granted. Upon exercise of an option, the optionee must pay such price (plus an amount equal to applicable withholding taxes) to the Company in cash or, with the approval of the Committee, by delivery to the Company of shares of Common Stock having an aggregate fair market value on the date of exercise equal to the aggregate option price, or a combination of such stock and cash.

The 1985 Plan provides for the granting of options intended to meet the requirements of Section 422A of the Internal Revenue Code ("Incentive Stock Options"), as well as the granting of options that do not meet those requirements ("Nonqualified Stock Options").

Stock Appreciation Rights

A stock appreciation right is a right granted by the Committee in connection with a stock option which permits the surrender to the Company of any part or all of the right in exchange for shares of Common Stock or cash in an amount equal to the difference between the fair market value of the option shares on the date of exercise and the option price ("spread"). The Committee has total discretion to determine whether payment for the right will be made in shares of Common Stock, cash or a combination thereof. A stock appreciation right may be granted either at the time the underlying stock option is granted or at any time thereafter, as may be determined by the Committee, but only up to six months before the expiration of the underlying stock option. A stock appreciation right may be exercised only by the person who is entitled to exercise the underlying option and only to the extent that such option is exercisable. The exercise of a stock appreciation right extinguishes the underlying option and, similarly, the exercise of an option cancels the related stock appreciation right.

Exercise

Each stock option or stock appreciation right granted under the 1985 Plan may be exercisable for a term of not more than ten years from the date of grant. Options granted in tandem with stock appreciation rights are not exercisable in any event during the first six months after grant. Stock appreciation rights are exercisable only to the extent the related stock option is exercisable and with respect to stock appreciation rights granted in tandem with Incentive Stock Options, only when there is a positive spread. Stock appreciation rights have a term set by the Committee, are not exercisable in any event during the first six months after grant and, to the extent the holder is to receive cash in exchange for the stock appreciation right, are exercisable only during the period from the third through the twelfth business day following the release by the Company of quarterly or annual revenues and earnings information. In the event of an unusual corporate event such as liquidation, merger, other business combinations, or change in control of the Company, the Committee, in its sole discretion, and on a case by case basis, may terminate Awards, in which event the exercise of such terminated Awards is accelerated.

Administration

The 1985 Plan will be administered by the Committee which consists of at least three persons, who shall be disinterested directors, appointed from time to time by the Board of Directors. Members of the Committee must not be eligible and, within one year prior to appointment, must not have been eligible for selection as persons to whom stock may be allocated or to whom stock options or stock appreciation rights may be granted pursuant to the 1985 Plan or any other plan of the Company or any of its subsidiaries.

The aggregate number of shares of Common Stock which may be sold or delivered under the 1985 Plan may not exceed 1,500,000 shares. Such shares may be authorized but unissued shares, shares

reacquired by the Company or a combination of both. The aggregate number and kind of shares which may be delivered under the 1985 Plan are subject to adjustment in the event of stock dividends, stock splits, mergers, consolidations or other recapitalizations or reorganizations of the Company. Shares of Common Stock subject to issuance upon exercise of stock options or stock appreciation rights but which are not issued because of the surrender, lapse, expiration or termination of the stock option or stock appreciation right shall become available for and may be made the subject of, additional stock options and stock appreciation rights under the 1985 Plan. To the extent stock appreciation rights are exercised, the number of shares of Common Stock equal in amount to the number of stock appreciation rights exercised shall not thereafter be available for issuance under the 1985 Plan.

The Board of Directors may from time to time amend the 1985 Plan provided that, without the approval of the stockholders of the Company, no action may (i) increase the total number of shares as to which options or stock appreciation rights may be issued under the 1985 Plan, (ii) permit an option price for Incentive Stock Options to be less than fair market value on the date of grant, (iii) alter the class of employees who are eligible to be granted options under the 1985 Plan, (iv) extend the term of the 1985 Plan, or (v) materially increase benefits to employees under the 1985 Plan. No amendment, modification, suspension or termination shall, without the consent of the optionee, impair any stock option or stock appreciation right previously granted to such optionee or deprive any optionee of shares of Common Stock which he may have acquired as a result of the 1985 Plan.

Federal Income Tax Consequences—Non-Qualified Stock Options

A non-qualified stock option issued under the 1985 Plan will not result in any taxable income to the participant or a tax deduction to the Company at the time it is granted. Generally, the holder of a non-qualified stock option will recognize ordinary income at the time the participant exercises the option and receives shares of Common Stock in an amount equal to the excess of the fair market value of such shares on the date of exercise over the exercise price.

However, notwithstanding the preceding, upon the exercise of a non-qualified option by an officer of the Company, unless the officer elects to be taxed on the date of exercise, the acquisition date of the shares for tax purposes, and the time of recognition of income, will be postponed so long as sale of the shares could subject the participant to suit under the "insider trading" provisions of Section 16(b) of the Securities Exchange Act of 1934 (generally six months). Furthermore, the amount of income realized by the officer will be the excess of the fair market value of such shares at the end of the postponement period (rather than at the date of exercise) over the exercise price.

The Company is entitled to a tax deduction corresponding to the amount of income realized by the participant in the year the participant recognizes such income for tax purposes.

Federal Income Tax Consequences—Incentive Stock Options

Neither receipt nor exercise of an incentive stock option is a taxable event, and if the optionee does not dispose of stock acquired under an incentive stock option prior to the expiration of the requisite holding periods, any gain resulting from the sale of the stock is long-term capital gain. In such case the Company is not entitled to any tax deduction with respect to the grant or the exercise of the option. The statutory holding period is at least two years from the date the option is granted and one year from the date the optionee receives his shares of Common Stock pursuant to the exercise. If the stock is disposed of before the end of the statutory holding period, the lesser of the difference between the exercise price and the fair market value of the stock on the date of exercise or the total amount of gain realized on the sale must be reported by the optionee as ordinary income and the Company is entitled to a tax deduction for that amount. The remaining gain, if any, is taxed to the optionee as long or short term

capital gain depending on how long the optionee held the stock. The statutory holding period is waived in the event of the optionee's death. The difference between the fair market value of Common Stock on the date of exercise and the exercise price is a tax preference item which may cause the optionee to incur an alternative minimum tax in the year of exercise.

Federal Income Tax Consequences—Stock Appreciation Rights

A participant will realize no taxable income upon the grant of a stock appreciation right. The participant will realize ordinary income in the tax year in which payment is realized in respect of a stock appreciation right and the Company will normally be entitled to a tax deduction for an equivalent amount for the same year. The amount of income subject to tax is the amount of cash and/or the then fair market value of the shares of Common Stock received upon exercise (which is the excess of the fair market value of Common Stock on the date of exercise over the initial price of the stock appreciation rights, as adjusted).

Other Matters

The 1985 Plan authorizes the Committee, in its discretion, to condition the grant of options or stock appreciation rights on the cancellation of some or all of the previously granted options held by a proposed recipient. The Board of Directors has resolved that no further options shall be granted under option plans other than the 1985 Plan, provided that the 1985 Plan is approved by the stockholders at the Annual Meeting. The Board has also resolved that shares of Common Stock subject to options previously granted under other option plans and reserved for issuance pursuant to such plans and the 1985 Plan shall not amount to more than 2,600,000 shares of Common Stock in the aggregate, subject to adjustment in the event of stock dividends, stock splits or the like.

The closing price of the Common Stock on March 21, 1985, as reported on the composite system for reporting trades which took place on the New York Stock Exchange and certain other markets in securities traded on the New York Stock Exchange, was \$14.625 per share. In order for any options granted under the 1985 Plan to qualify as incentive stock options, the 1985 Plan must be approved, not later than February 21, 1986, by the affirmative vote of the holders of a majority of the voting stock of the Company voting as a single class and of a majority of the votes cast. Further, the holders of at least a majority in voting interest of stock entitled to vote must vote on the question of approval.

The Board of Directors recommends that the stockholders vote **FOR** approval of the 1985 Stock Option and Stock Appreciation Right Plan.

AUDITORS

The Board of Directors, upon the recommendation of the Audit Committee, has approved the selection of Arthur Young & Company as the Company's independent auditors for 1985.

OTHER BUSINESS

In addition to the matters described above, there will be an address by the Chairman of the Board of Directors of the Company and a general discussion period during which stockholders will have an opportunity to ask questions. Representatives of Arthur Young & Company, the Company's independent auditors, will be present at the meeting with the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

Management knows of no other business to be presented for action at the meeting. If other matters properly come before the meeting or any adjournment thereof, the persons named as proxies will vote upon them in accordance with their best judgment.

EXPENSE OF SOLICITATION

The cost of this solicitation will be borne by the Company. In addition to the use of the mails, proxy solicitation may be made by telephone, telegraph and personal interviews by regular employees of the Company. The Company will also reimburse brokerage houses and others for forwarding proxy material to beneficial owners of stock.

STOCKHOLDER PROPOSALS FOR THE 1986 ANNUAL MEETING

The date by which stockholder proposals for inclusion in the proxy materials relating to the next Annual Meeting of Stockholders must be received by the Company at its principal executive offices, Attention: Glenn K. Seidenfeld, Jr., Vice President and Secretary, Bally Manufacturing Corporation, 8700 West Bryn Mawr Avenue, Chicago, Illinois 60631, is November 30, 1985.

FINANCIAL STATEMENTS AVAILABLE

A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K which contains Consolidated Financial Statements of the Company and its subsidiaries is included in the Annual Report of the Company to Stockholders for the year 1984 which accompanies this Proxy Statement. The Company will provide to any stockholder as of the record date who so requests in writing copies of the financial schedules and exhibits to the Annual Report on Form 10-K. Requests for such copies should be directed to Glenn K. Seidenfeld, Jr., Vice President and Secretary, Bally Manufacturing Corporation, 8700 West Bryn Mawr Avenue, Chicago, Illinois 60631.

By Order of the Board of Directors,

GLENN K. SEIDENFELD, JR.
Vice President and Secretary

Chicago, Illinois
March 22, 1985

Next Page A-1