



Manufacturing Corporation

8700 West Bryn Mawr Avenue
Chicago, Illinois 60631

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 8, 1986

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 8, 1986 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 III for three-year terms expiring in 1989.
2. 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 14, 1986 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,

NEIL E. JENKINS
Secretary and General Counsel

Chicago, Illinois
March 24, 1986

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 8, 1986

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 8, 1986, 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 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 the nominees for director. The approximate date on which this Proxy Statement and the enclosed proxy are first being sent to stockholders is March 31, 1986.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The total outstanding voting stock of the Company as of March 14, 1986 consisted of 27,483,198 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 14, 1986.

To the knowledge of the Company, on March 1, 1986, no 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 III are to be elected for a three-year term expiring in 1989 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 for election as directors of Class III. It is intended that all duly executed 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 and Dr. Rinfret who were elected by the Board of Directors in July, 1984, and February, 1986, respectively, to fill vacancies on the Board, for terms expiring in 1987) were elected at the 1984 Annual Meeting for a three-year term expiring in 1987 and the directors of Class II (except for Mr. Lovell who was elected by the Board of Directors in February, 1986, to fill a vacancy on the Board, for a term expiring in 1988) were elected at the 1985 Annual Meeting for a three-year term expiring in 1988. Information regarding the nominees for election and the continuing directors, furnished in part by each such person, appears below:

NOMINEES

Class III For a Term Expiring in 1989

Name, Age, Principal Occupation and Additional Information	Has Served as Director Since	Number of Shares of Common Stock Beneficially Owned as of March 1, 1986(1)(2)(3)	Percent of Class(2)	Number of Common Stock Purchase Warrants Beneficially Owned as of March 1, 1986(1)	Percent of Class	Number of Shares of Common Stock of Bally's Park Place, Inc. Beneficially Owned as of March 1, 1986(1)	Percent of Class
Robert E. Mullane, 53, President, chief executive officer and chairman of the board of directors of the Company; director of Bally's Park Place, Inc.	1979	19(4)	*	1,583	*	1,000	*
Walter Wechsler, 72, 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, 62, President and chief execu- tive officer of Home Life Insurance Company; mem- ber of the Advisory Board of Chemical Bank	1984	700	*	—	*	—	*

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, 1986(1)(2)(3)	Percent of Class(2)	Number of Common Stock Purchase Warrants Beneficially Owned as of March 1, 1986(1)	Percent of Class	Number of Shares of Common Stock of Bally's Park Place, Inc. Beneficially Owned as of March 1, 1986(1)	Percent of Class
James M. Rochford, 64, Vice President of the Company	1981	2,364	*	—	*	—	*
James R. Cowan, M.D., 69, President of United Hospitals 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	1,000	*	—	*	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 Bradley Real Estate Trust(5)	1984	400	*	13	*	63	*
Pierre A. Rinfret, Ph.D., 62, President and chief executive officer of Rinfret Associates, Inc.; Dr. Rinfret is also a director of Brunswick Corporation, MacAndrews & Forbes Holdings, Incorporated and Pantry Pride, Inc.	1986	—	*	—	—	*	

**MICROFILMED BY
Q-DATA CORP.
ST. PETERSBURG, FLORIDA U.S.A.**

CONTINUING DIRECTORS

**Class II
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, 1986(1)(2)(3)	Percent of Class(2)	Number of Common Stock Purchase Warrants Beneficially Owned as of March 1, 1986(1)	Percent of Class	Number of Shares of Common Stock of Bally's Park Place, Inc. Beneficially Owned as of March 1, 1986(1)	Percent of Class
George N. Aronoff, 52, Partner in the Cleveland law firm of Benesch, Fried- lander, Coplan & Aronoff; Mr. Aronoff is also a director of Malrite Communications Group, Inc.(6)	1979	500	*	16	*	2,158	*
Patrick L. O'Malley, 75, Chairman of the board of directors of Michigan Ave- nue National Bank; for- merly president and chief executive officer and pre- sently chairman emeritus of Canteen Corporation and director emeritus of Trans World Corporation	1981	1,400	*	13	*	—	*
James A. Lovell, 58, Executive Vice President of Centel Corporation and President of Centel Com- munications Company; for- merly an Apollo astronaut; Mr. Lovell is also a direc- tor of Centel Corporation and Federal Signal Corporation	1986	1,000	*	—	*	—	*
All officers and directors as a group(2)(3)		25,425	*	1,664	*	3,521	*

*Less than one-tenth of one percent.

- (1) Includes, in certain instances, shares and/or warrants held in the name of the 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 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, 1986, the right to acquire upon the exercise of options: Mr. Rochford, 14,692; Mr. Mullane, 21,604; and all officers and directors, including the above, as a group, 128,118. Also does not include those shares of Common Stock which such persons will receive if the proposed merger between the Company and its 84% owned subsidiary, Bally's Park Place, Inc. ("Bally's Park Place") is consummated. Pursuant to

an Agreement and Plan of Merger dated February 11, 1986, Bally's Park Place will merge into a wholly owned subsidiary of the Company and each share of Bally's Park Place common stock, except those owned by the Company, will be cancelled and converted into one share of Common Stock. Consummation of the merger is subject to various conditions.

- (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, 1986: Mr. Mullane, 19; Mr. Rochford, 1,364; and all officers and directors as a group, 10,250.
- (4) Does not include 12,861 shares of Preferred Stock Series A Convertible, Par Value \$1.00 per share ("Series A Preferred Stock") of the Company owned by Mr. Mullane which may be converted into 64,305 shares of Common Stock as follows: (i) 50% beginning October 8, 1986, (ii) the balance on or after October 8, 1987 or (iii) 100% in the event of a change of control of the Company.
- (5) Mr. Linkletter previously served as a director of the Company.
- (6) Mr. Aronoff also owned as of March 1, 1986, \$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, 1986, \$14,000 principal amount of such Debentures.

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

The Board of Directors held seven meetings during 1985. Each incumbent director attended at least 85% of the aggregate number of meetings of the Board of Directors and all committees on which he served during 1985.

The Board of Directors has an Executive Committee, 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:

Executive Committee

The Executive Committee did not hold a meeting during 1985, although it approved various specific actions by unanimous written consent without meeting. The current members of the Executive Committee are Messrs. Mullane, Chairman, O'Malley and Rochford. The Executive Committee may exercise all of the powers of the Board of Directors to the extent permitted by law.

Audit Committee

The Audit Committee held two meetings during 1985. 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 1985. 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 of Directors 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 must 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 (the "Committee"), held six meetings during 1985. The current members of the Committee are Dr. Cowan, Chairman, Messrs. Aronoff, Mullane (Mr. Mullane as to compensation matters only) and O'Malley (alternate member). The general functions of the Committee include approval (or recommendation to the Board of Directors) 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 of Directors or any committees of the Board of Directors. In 1985 the members of the Board of Directors who were not employees received an annual retainer of \$25,000 plus a \$2,000 stipend for each meeting attended. Non-employee directors received additional stipends for service on committees of the Board of Directors in the amount of \$500 per year for committee members and \$2,500 per year for committee chairmen. Commencing January 1, 1986 directors who are not employees will receive an annual retainer of \$30,000 and the Chairman of the Audit Committee will receive an annual stipend of \$5,000. Otherwise fees to non-employee directors will remain the same as in 1985.

During 1985, the Company and its subsidiaries paid approximately \$1,400,000 to the law firm of Benesch, Friedlander, Coplan & Aronoff, of which Mr. Aronoff, a director of the Company, is a partner, for legal services rendered. The Company proposes to retain such firm during the current year.

Effective May 15, 1985, the Company established the Non-Employee Directors' Retirement Plan for directors of the Company who are not, at retirement (as defined), full time employees of the Company or any of its majority owned subsidiaries ("Eligible Directors"). Upon retirement, an Eligible Director is entitled to receive an annual benefit equal to the annual retainer payable to directors at that time for, at the discretion of the Board of Directors, up to ten years of service as a director or the product of the number of years served as a director multiplied by 1.5. Benefits payable under this plan may be cancelled in the event an Eligible Director engages in conduct adverse to the Company's interests. Benefits are payable only during the Eligible Director's lifetime. If an Eligible Director dies while serving as a director, the surviving spouse shall be entitled to a death benefit equal to the annual retainer payable to directors during the year of death.

COMPENSATION OF EXECUTIVE OFFICERS FOR THE YEAR 1985

Cash Compensation

The following table sets forth cash compensation paid or accrued by the Company and its subsidiaries during 1985 to each of the six most highly compensated executive officers of the Company, and to all executive officers of the Company as a group for services in all capacities:

<u>Name of Individual or Number in Group</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation(1)</u>
Robert E. Mullane(2)	President, Chief Executive Officer and Chairman of the Board of Directors	\$1,210,120
Roger N. Keesee(3)	Executive Vice President and Chief Operating Officer	568,968
Donald B. Romans(4)	Executive Vice President and Chief Financial Officer	385,379
Michael T. Lyon	Vice President	265,000
James M. Rochford(5)	Vice President	225,000
Charles T. Powell(6)	Vice President	225,000
13 executive officers as a group (7)		\$4,024,970

- (1) Includes bonus awards to executive officers determined by the Committee, except for the bonus award to Mr. Mullane which was approved by the non-employee members of the Board of Directors. Bonus awards were based upon, among other things, the extent to which personal performances contributed to the Company's profit and growth performance.
- (2) 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. Mr. Mullane's employment contract was amended in May, 1982, August, 1984, and October, 1985. The effect of the amendments is to extend the term of the employment contract through December 31, 1989 and to compensate Mr. Mullane at the annual rate of \$650,000 through September 30, 1985, and \$980,000 for the remainder of the contract term.
- (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. Mr. Keesee's employment contract was amended in May, 1985 to name Mr. Keesee Chief Operating Officer, to extend its term for an additional two years and to compensate Mr. Keesee at the annual rate of \$325,000. On September 1, 1983, Mr. Keesee entered into a supplemental employment agreement which provides, 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 Mr. Keesee's employment is terminated for any reason other than death, disability, retirement or cause, then the Company is obligated to pay him 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, Mr. Keesee 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.
- (4) Mr. Romans entered into a one-year employment contract effective October 1, 1985 to serve as Executive Vice President and Chief Financial Officer at an annual salary of \$275,000.
- (5) Mr. Rochford entered into a three-year employment contract effective March 1, 1984 to serve as Vice President at an annual salary of \$150,000.
- (6) Mr. Powell entered into a three-year employment contract effective June 1, 1985 to serve as Vice President at an annual salary of \$150,000.
- (7) 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 and includes information with respect to two executive officers who resigned during 1985.

Long-Term Incentive Plan. In December 1985, the Board of Directors of the Company approved the Long-Term Incentive Plan (the "LTIP") which is designed to provide participants with an additional incentive to improve the Company's business performance on a long-term basis. Participation in the LTIP is limited to certain officers and other key employees of the Company and its affiliates, as designated by the Committee. Under the terms of the LTIP, the Committee has discretion to award participants the contingent right ("LTIP Grant") to receive an LTIP payment and to determine the amount of each LTIP Grant, which is expressed as a percentage of the participant's annual salary, exclusive of all bonuses and other discretionary income, including LTIP payments. The Committee also has authority to set performance goals and a period during which performance goals are to be achieved ("Award Period"). To the extent that the Committee determines that the performance goal has been attained during an Award Period, each participant will receive a cash bonus ("LTIP Payment"). The amount of the LTIP Payment will equal the LTIP Grant multiplied by the level of attainment of the performance goal for the Award Period pertaining to such LTIP Grant. Upon the death, disability, retirement, or termination without cause of a participant, or, in the case of certain unusual corporate events, a portion of the LTIP Payment will be paid to the participant or his death beneficiary. Generally, participants terminating employment for reasons other than those referred to above will not be entitled to receive any LTIP Payment for the Award Period in which termination occurs. The LTIP is unfunded and not qualified under the Employment Retirement Income Security Act of 1974, as amended ("ERISA"). For 1986, the Committee has designated the Company's current executive officers participants but has not set performance goals applicable to the LTIP.

Insurance

The Company maintains executive life insurance and long-term disability and medical reimbursement plans for officers and certain other key employees which provide life, long-term disability 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, \$64,596; Mr. Keesee, \$23,439; Mr. Romans, \$31,877; Mr. Lyon, \$18,179; Mr. Rochford, \$27,200; Mr. Powell, \$16,295; and all executive officers as a group, \$255,298.

Other Compensation

Certain incidental personal benefits to executive officers of the Company may result from expenses incurred by the Company in the interest of attracting and retaining qualified personnel. Except for Mr. Keesee's use during 1985 of a furnished apartment residence occasioned by his relocation to the Chicago area and his use of a Company-leased automobile, valued at their cost to the Company of \$26,292, this Proxy Statement does not describe such incidental personal benefits made available to executive officers during 1985, because the incremental cost to the Company of such benefits is below the Securities and Exchange Commission disclosure threshold. These benefits included personal use of automobiles owned or leased by the Company.

Retirement Plans

From 1966 to 1983, the Company provided retirement benefits for its employees solely through the Company's Profit-Sharing Plan (the "Profit-Sharing Plan"). Contributions to the Profit-Sharing Plan during that period usually equalled 15% of the total of eligible employees' compensation, the maximum amount deductible for federal income tax purposes. In 1983, based on a review of retirement benefits provided by comparable companies and recommendations of an outside consulting firm, the Company approved a cost-effective program to provide greater retirement flexibility and more comprehensive

benefits. Effective January 1, 1984, the Company's Board of Directors lowered the contribution to the Profit-Sharing Plan and instituted several additional retirement plans. The cost of the new plans together with the cost of the Profit-Sharing Plan under the new contribution limitation is less than the Company's former contribution under the Profit-Sharing Plan on a per-employee basis. Effective January 1, 1986, the Board of Directors also adopted the Supplemental Vesting Plan. A description of each plan in the Company's retirement benefits program is set forth below.

Employee Profit-Sharing Plan. 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 Profit-Sharing 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 Profit-Sharing 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 Profit-Sharing Plan or has attained age 65. Employees who were participants under the Profit-Sharing Plan on December 31, 1983 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 amounts of cash and cash values of shares of Common Stock (as of the date of contribution) contributed by the Company to the Profit-Sharing Plan during the last fiscal year and allocated to the Profit-Sharing Plan accounts of the executive officers named in the cash compensation table above and all executive officers as a group: Mr. Rochford, \$5,250; and all executive officers as a group, \$46,381.

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 Profit-Sharing Plan prior to 1984 will receive an additional benefit from the Pension Plan if the actuarially determined benefit which could be purchased by his Profit-Sharing 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. Keesee, 18 years; Mr. Romans, 12 years; Mr. Lyon, 25 years; Mr. Rochford, 3 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	\$ 13,370	\$ 19,812	\$ 26,128	\$ 32,300
250,000	34,370	51,312	68,128	84,800
500,000	69,370	103,812	138,128	172,300
750,000	104,370	155,812	208,128	259,800
1,000,000	139,370	207,812	278,128	347,300
1,250,000	174,370	259,812	348,128	434,800
1,500,000	209,370	311,812	418,128	522,300

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 eligible to participate 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. Lyon, \$1,500; Mr. Rochford, \$2,250; and all executive officers as a group, \$12,800.

ERISA Excess Plan. ERISA imposes a limitation on the maximum benefits which may be provided annually to a participant under the Profit-Sharing Plan, the Pension Plan and the 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 these three employee benefit plans but for the annual limitations imposed by ERISA. Participation in the EEP is limited to certain key executives designated by the Committee. Vesting under the EEP is determined on the same basis as under the Profit-Sharing Plan, the Pension Plan and the 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, \$118,155; Mr. Keesee, \$30,921; Mr. Romans, \$28,093; Mr. Lyon, \$17,978; Mr. Rochford, \$2,900; Mr. Powell, \$13,302; and all executive officers as a group, \$213,627.

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 the executive officers named in the cash compensation table above and all executive officers as a group, is less than \$2,000.

Supplemental Vesting Plan. In order to attract and retain experienced executives, the Company established the Bally Manufacturing Corporation Supplemental Vesting Plan (the "SVP") effective January 1, 1986, which restores to certain executives designated by the Committee all or a portion of the benefits under one or more of the following plans: the Profit-Sharing Plan, the Pension Plan, the EEP and the Employees' ERISA Excess Plan (the "Underlying Plans"), which would otherwise be lost because such executives were not fully vested in such benefits at the time of the involuntary termination of their employment. Under the SVP, participants are entitled to receive a benefit equal to the product of (a) the aggregate accrued benefits such participant would have been entitled to receive under the Underlying Plans if he were 100% vested in his benefits thereunder on the date his employment with the Company or one of its subsidiaries was terminated, multiplied by (b) a proration factor of: (1 divided by 50 less the participant's age on the date as of which he or she was selected as an SVP participant) multiplied by the total number of years which have elapsed since the date as of which such participant was selected to join the SVP. Notwithstanding the above, however, a participant who is aged 50 or above on the date his employment is terminated will be entitled to receive an award equal to the aggregate accrued benefits such participant would have been entitled to receive under the Underlying Plans if he were 100% vested in his benefits thereunder on the date of his termination. Benefits under the SVP shall be paid in the same manner and mode and at the same time as payment of benefits pursuant to the Underlying Plans. The SVP is unfunded and is not qualified under ERISA. Messrs. Keesee, Romans and Lyon have been designated by the Committee as participants in the SVP.

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 10 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 Profit-Sharing Plan, the EEP, the Pension Plan, the Savings Plan, the SVP, any other retirement benefits paid by the Company and Social Security. Participation in the SERP is limited to certain key executives designated by the Committee 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. Under certain circumstances, in the case of unusual corporate events such as certain changes in control of the Company, or in the case of severance, 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 and 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 is 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. Keesee, 19 years; Mr. Romans, 14 years; Mr. Lyon, 26 years; Mr. Rochford, 9 years; and Mr. Powell, 36 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
1,250,000	416,666	625,000
1,500,000	500,000	750,000

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

Stock Options

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 1982 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 Committee (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 granted 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 Company did not grant any options pursuant to the 1982 Plan during 1985, and no additional options will be granted under the 1982 Plan.

1985 Stock Option and Stock Appreciation Right Plan. The Company's 1985 Stock Option and Stock Appreciation Right Plan (the "1985 Plan"), effective February 22, 1985, was approved by the Company's stockholders at the 1985 Annual Meeting. Under the 1985 Plan, 1,500,000 shares of Common Stock are authorized for issuance upon exercise of incentive stock options, nonqualified stock options and payments for stock appreciation rights when such payments are made in stock. Pursuant to the 1985 Plan, the Committee selects those officers and key employees who are eligible to receive options and rights, the number of options and rights awardable and the period during which the options and rights may be exercised. Options are granted at no less than 100% of the closing market price of the Common Stock on the New York Stock Exchange on the last trading day prior to the date of the grant (the "Fair Market Value"). Stock appreciation rights, which may only be granted in tandem with options, permit the surrender to the Company of any part or all of the related options. Upon exercise of the stock

appreciation right, in exchange for surrendering each option, the holder receives shares of Common Stock, cash or a combination thereof in an amount equal to the difference between the Fair Market Value of each share of the Common Stock on the date of exercise and the option price. Options and rights granted under the 1985 Plan may be granted with an exercise term of no more than 10 years from the date of grant. The 1985 Plan will terminate on February 21, 1995 and no options or rights will be granted under the 1985 Plan after such date.

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 and stock appreciation rights:

<u>Stock Options</u>	<u>Robert E. Mullane</u>	<u>Roger N. Keesee</u>	<u>Donald B. Romans</u>	<u>Michael T. Lyon</u>	<u>James M. Rochford</u>	<u>Charles T. Powell</u>	<u>All Executive Officers as a Group (13)</u>
Granted—January 1, 1985 to December 31, 1985:							
Number of stock options and stock appreciation rights	125,000	37,500	37,500	22,500	22,500	22,500	369,750
Average per share exercise price	\$14.00	\$14.00	\$14.00	\$14.00	\$14.00	\$14.00	\$14.00
Exercised—Net value realized in shares (market value less exercise price) or cash:							
January 1, 1985 to December 31, 1985 ...	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

During 1985 the Company granted, pursuant to the 1985 Plan, options covering 405,750 shares of Common Stock, of which 369,750 are in tandem with stock appreciation rights.

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%.

In 1985, the Board of Directors, through the Committee, discontinued the policy of considering loans to officers for the purpose of exercising stock options.

Pursuant to such policy, loans were made to Mr. Mullane during 1982 and 1983, under which at March 1, 1986, \$119,084 of principal amount of interest free loans remained outstanding. Two promissory notes from Mr. Mullane, representing loans originally made in connection with the above-described policy, representing an outstanding principal balance of \$1,228,856, were amended on October 5, 1985. These notes, which were to mature on July 2, 1986 and June 10, 1987, respectively, now provide for semi-annual compounding and payment of interest at 14.2% and 13.2% per annum, respectively, until October 1, 1989 and at 9.5% per annum on each such note thereafter. The principal balance of each of the two notes is due and payable on October 5, 1995.

Mr. Jerry Blumenshine, a Vice President, received a loan in 1983, the highest principal balance of which during 1985 was \$164,718. At March 1, 1986, \$164,718 of Mr. Blumenshine's loan remained outstanding. During the last fiscal year no other loans granted pursuant to the policy were outstanding.

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 the earlier of November 22, 1987, 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 \$158,301. At March 1, 1986, \$152,051 was outstanding.

On October 5, 1985, Mr. Mullane transferred to the Company 66,231 shares of Common Stock and \$51.44 in cash in exchange for 12,861 shares of Series A Preferred Stock. A holder of Series A Preferred Stock is entitled to an annual dividend preference of 9% of the fair market value (\$84.33 per share) of Series A Preferred Stock on the date of issuance and a liquidation preference of 100% of such fair market value. The agreement governing the exchange provides for repurchases of Series A Preferred Stock by the Company at specified price formulas. Repurchases may be made either at Mr. Mullane's request between January 5, 1986 and October 5, 1986 or as required upon the happening of certain events such as termination of employment. The exchange was based upon the relative fair market values of the Common Stock and the Series A Preferred Stock. The Board of Directors valued the Common Stock based upon the applicable closing price on the New York Stock Exchange and valued the Series A Preferred Stock at \$1,084,568, based upon advice of an independent investment banking firm. At the date hereof, shares of Series A Preferred Stock are held only by Mr. Mullane.

On December 17, 1985, the Company, Bally's Park Place, Inc. (the Company's 84%-owned subsidiary), and the directors of Bally's Park Place (who include Robert E. Mullane, Walter Wechsler, James R. Cowan, and Alfred Linkletter, all of whom are also directors of the Company) were named as defendants in a purported class action entitled *Dunlop v. Bally's Park Place, et al.*, filed in the Court of Chancery of the State of Delaware, New Castle County. The complaint alleges, among other things, that in connection with the proposed merger of Bally's Park Place into a wholly owned subsidiary of the Company (the "Merger"), Bally's Park Place and its directors violated their fiduciary duties, the Company breached its duties as a majority stockholder of Bally's Park Place and the Company offered an inadequate price per share, constituting a fraud on the public stockholders of Bally's Park Place. The suit seeks an injunction restraining the consummation of the Merger as well as unspecified damages. The Company believes the action is without merit.

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 1986.

OTHER BUSINESS

In addition to the matters described above, there will be an address by the Chairman of the Board of Directors 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 1987 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: Neil E. Jenkins, Secretary and General Counsel, Bally Manufacturing Corporation, 8700 West Bryn Mawr Avenue, Chicago, Illinois 60631, is November 24, 1986.

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 1985 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 Neil E. Jenkins, Secretary and General Counsel, Bally Manufacturing Corporation, 8700 West Bryn Mawr Avenue, Chicago, Illinois 60631.

By Order of the Board of Directors,

NEIL E. JENKINS
Secretary and General Counsel

Chicago, Illinois
March 24, 1986