Manufacturing Corporation

8700 West Bryn Mawr Avenue
Chicago, Illinois 60631

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 12, 1987

To Our Stockholders:

Notice is hereby given of the Annual Meeting of Stockholders of Bally Manufacturing Corporation to be held in the Barrymore Room of The Bally's-Reno, 2500 East Second Street, Reno, Nevada, 89595, on May 12, 1987 at 1:30 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 I for three-year terms expiring in 1990.
2. A proposal to amend Article Seventh of the Company's Restated Certificate of Incorporation to limit directors' liability and provide for indemnification of officers and directors to the extent permitted under Delaware law.
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 17, 1987 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
Vice President, Secretary and General Counsel

Chicago, Illinois
March 24, 1987

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.

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Manufacturing Corporation

8700 West Bryn Mawr Avenue
Chicago, Illinois 60631

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

May 12, 1987

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 12, 1987, 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 and for approval of the proposal to amend Article Seventh of the Company's Restated Certificate of Incorporation (the "Certificate of Incorporation"). The approximate date on which this Proxy Statement and the enclosed proxy are first being sent to stockholders is March 31, 1987.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The total outstanding voting stock of the Company as of March 17, 1987 consisted of 28,075,166 shares of Common Stock, par value 66⅔¢ ("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 17, 1987.

To the knowledge of the Company, on March 1, 1987, 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 I are to be elected for a three-year term expiring in 1990 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 I. 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 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, and the directors of Class III (except for Mr. Rogich who was elected by the Board of Directors in September, 1986 to fill a vacancy on the Board, for a term expiring in 1989) were elected at the 1986 Annual Meeting for a three year-term expiring in 1989. Information regarding the nominees for election and the continuing directors, furnished in part by each such person, appears below:

NOMINEES

Class I
For a Term Expiring in 1990

Name, Age, Principal Occupation and Additional Information	Has Served as Director Since	Number of Shares of Common Stock Beneficially Owned as of March 1, 1987(1)(2)(3)	Percent of Class(2)	Number of Common Stock Purchase Warrants Beneficially Owned as of March 1, 1987(1)	Percent of Class
James M. Rochford, 65, Vice president of the Company	1981	31,151	*	—	*
James R. Cowan, M.D., 70, President and chief executive officer 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	4,000	*	—	*
Pierre A. Rinfret, 63, President and chief executive officer of Rinfret Associates, Inc.; Dr. Rinfret is also a director of Brunswick Corporation, MacAndrews & Forbes Holdings, Incorporated, Revlon Group Incorporated, and Revlon, Inc.	1986	100	*	—	*

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, 1987(1)(2)(3)	Percent of Class(2)	Number of Common Stock Purchase Warrants Beneficially Owned as of March 1, 1987(1)	Percent of Class
George N. Aronoff, 53, Partner in the Cleveland law firm of Benesch, Friedlander, Coplan & Aronoff; Mr. Aronoff is also a director of Malrite Communications Group, Inc. and Bally's Grand, Inc.(4)	1979	2,658	*	16	*
Patrick L. O'Malley, 76, Chairman of the board of directors of Michigan Avenue National Bank; formerly president and chief executive officer and presently chairman emeritus of Canteen Corporation and director emeritus of Trans World Corporation	1981	1,400	*	13	*
James A. Lovell, 59, Executive vice president of Centel Corporation and president of Centel Communications Company; formerly an Apollo astronaut; Mr. Lovell is also a director of Centel Corporation and Federal Signal Corporation	1986	1,000	*	—	*

CONTINUING DIRECTORS

Class III
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, 1987(1)(2)(3)	Percent of Class(2)	Number of Common Stock Purchase Warrants Beneficially Owned as of March 1, 1987(1)	Percent of Class
Robert E. Mullane, 54, President, chief executive officer and chairman of the board of directors of the Company; director of Bally's Park Place, Inc. and Bally's Grand, Inc.	1979	107,244(5)	*	1,583	*
Walter Wechsler, 73, Governmental and fiscal affairs consultant; formerly Comptroller of the Treasury, Budget Director and Chief Fiscal Officer of the State of New Jersey; director of Bally's Park Place, Inc.	1981	700	*	10	*
Kenneth C. Nichols, 63, President and chief executive officer of Home Life Insurance Company; member of the Advisory Board of Chemical Bank	1984	700	*	—	*
Sigmund A. Rogich, 43, President and chief executive officer of R & R Advertising and Public Relations	1986	—	*	—	*
All officers and directors as a group(4)		345,403	1.16	1,651	*

*Less than 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) Includes the following number of shares of the Common Stock which such persons have or had, within 60 days after March 1, 1987, the right to acquire upon the exercise of options: Mr. Mullane, 74,072; Mr. Rochford, 28,906; and all officers and directors, including the above, as a group, 284,412.

(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, 1987: Mr. Mullane, 19; Mr. Rochford, 1,245; and all officers and directors as a group, 6,708.

(4) Mr. Aronoff also owned as of March 1, 1987, $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, 1987, $14,000 principal amount of such Debentures.

(5) Mr. Mullane owns 12,861 shares of Preferred Stock Series A Convertible, Par Value $1.00 per share, of the Company, which Mr. Mullane may convert into 64,305 shares of Common Stock as follows: (i) 50% beginning October 8, 1986 (reflected in the table by the inclusion of 32,153 shares of Common Stock), (ii) the balance on or after October 8, 1987 or (iii) 100% in the event of a change of control of the Company.

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

The Board of Directors held eight meetings during 1986. 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 1986.

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 held two meetings during 1986. The current members of the Executive Committee are Mr. Mullane, Chairman, and Messrs. 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 five meetings during 1986. The current members of the Audit Committee are Mr. O'Malley, Chairman, and Messrs. 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 held one meeting during 1986. The current members of the Nominating Committee are Mr. Wechsler, Chairman, Dr. Cowan and Messrs. Lovell and Mullane. The general functions of the Nominating Committee include 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 1986. The current members of the Committee are Dr. Cowan, Chairman, Dr. Rinfret and Messrs. Aronoff and Mullane (Mr. Mullane as to compensation matters only). 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 1986, the members of the Board of Directors who were not employees received an annual retainer of $30,000 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, except the Chairman of the Audit Committee, who received an annual stipend of $5,000.

In 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, the product of the number of years served as a director multiplied by 1.5 or, up to ten years. 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.

During 1986, the Company and its subsidiaries paid approximately $1,622,947 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 plans to retain such firm during the current year.

COMPENSATION OF EXECUTIVE OFFICERS FOR THE YEAR 1986

Cash Compensation

The following table sets forth cash compensation paid or accrued by the Company and its subsidiaries during 1986 to each of the five most highly compensated executive officers of the Company, and to all executive officers of the Company as a group for services in all capacities:

Name of Individual or Number in Group	Capacities in Which Served	Cash Compensation(1)
Robert E. Mullane(2)	President, Chief Executive Officer and Chairman of the Board of Directors	$1,680,000
Roger N. Keesee(3)	Executive Vice President and Chief Operating Officer	599,807
Donald B. Romans	Former Executive Vice President and Chief Financial Officer	400,000
Charles T. Powell(4)	Vice President	299,808
Jerry A. Blumenshine(5)	Vice President and Treasurer	274,923
11 executive officers as a group(6)		$4,479,544

(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 1985, when Mr. Keesee was elected Chief Operating Officer, to extend its term until February 21, 1988 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, 1985 to serve as Vice President at an annual base salary of $150,000.

(5) Mr. Blumenshine entered into a three-year employment contract effective September 1, 1984 to serve as Vice President and Assistant to the President at an annual base salary of $133,837.

(6) 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 one executive officer who resigned during 1986.

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 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 termination of the LTIP or the death, disability, retirement, or termination without cause of a participant, or, in the case of certain unusual corporate events, a portion or all 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 generally not covered under the Employment Retirement Income Security Act of 1974, as amended ("ERISA"). In 1986, no payments were made pursuant to the LTIP. LTIP Grants have been made to the Company's current executive officers for Award Periods beginning in 1986 and 1987.

Severance Agreements. In January 1987, the Company entered into agreements (the "Severance Agreements") with its executive officers which provide certain benefits in the event of a change in control of the Company. The purpose of the Severance Agreements is to insure a continuity of management and encourage the continued attention and dedication of key management in the face of potentially disturbing circumstances which may arise from an actual or potential change in control. The Severance Agreements provide, among other things, for benefits payable when actual or constructive termination of employment under certain circumstances occurs subsequent to: (i) the acquisition by any person of 25% or more of the Company's voting securities; (ii) a change in the composition of the Board of Directors, under certain circumstances; (iii) approval by the stockholders of a merger or a liquidation of the Company; or (iv) the sale or disposition of assets. The Severance Agreements provide for lump sum severance payments equaling 1.5 to 2 times then current salary plus 1986 bonus, with the exception of the Severance Agreement with Mr. Mullane which provides for such a payment in an amount equaling 3 times then current salary and 1986 bonus. Mr. Mullane's Severance Agreement also provides for the payment of certain excise taxes which may be imposed on payments pursuant to and under his Severance Agreement.

In addition, the Severance Agreements provide for cash payments in settlement of outstanding stock options and interests in various nonqualified benefit plans. The Severance Agreements also provide for continued life, disability, accident and health insurance benefits for 18-36 months after termination. The Severance Agreements are effective until December 31, 1988 and may be extended under certain circumstances.

In conjunction with the Severance Agreements, the Company has established the Bally Manufacturing Corporation Trust Agreement for Non-Qualified Compensation Plans and Severance Agreements (the "Trust"). Pursuant to the terms of the Trust, corporate assets will be contributed to the Trust in the event that a change in control (as defined in the Trust) is imminent. Payments will be made, in part or in whole, directly from the Trust to satisfy the Company's obligations pursuant to the Severance Agreements.

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, $99,596; Mr. Keesee, $24,785; Mr. Romans, $33,894; Mr. Powell, $18,664; Mr. Blumenshine, $17,568; and all executive officers as a group, $296,152.

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. This Proxy

Statement does not describe such incidental personal benefits made available to executive officers during 1986, 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 these 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. A description of each plan in the Company's retirement benefits program is set forth below.

Employees' 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 at the rate of 20% after three years of service and 20% per year thereafter with full vesting of contributions when an employee has completed 7 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 for the first four years of service and 20% per year thereafter with full vesting of contributions when such an employee has completed seven years of service or has attained age 65. Benefits are generally payable only on termination of employment or retirement.

The cash to be contributed by the Company to the Profit-Sharing Plan for the last fiscal year and allocated to the Profit-Sharing Plan accounts of all executive officers as a group is $9,616. There will be no such contributions made on behalf of the executive officers named in the cash compensation table above.

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 five 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. Powell, 23 years; and Mr. Blumenshine, 21 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

	Years of Service				
Remuneration	5	10	15	20	25
$ 100,000	$ 6,739	$ 13,352	$ 19,785	$ 26,056	$ 32,210
250,000	17,239	34,352	51,285	68,056	84,710
500,000	34,739	69,352	103,785	138,056	172,210
750,000	52,239	104,352	156,285	208,056	259,710
1,000,000	69,739	139,352	208,785	278,056	347,210
1,250,000	87,239	174,352	261,285	348,056	434,710
1,500,000	104,739	209,352	313,785	418,056	522,210
1,750,000	122,239	244,352	366,285	488,056	609,710
2,000,000	139,739	279,352	418,785	558,056	697,210
2,250,000	157,239	314,352	471,285	628,056	784,710

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.

The cash to be contributed by the Company to the Savings Plan for the last fiscal year and allocated to the Savings Plan accounts of all executive officers as a group, is $4,652. There will be no cash contributions by the Company to the Savings Plan for the last fiscal year allocated to the Savings Plan accounts of the executive officers named in the cash compensation table above.

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, and will not be made if payment is made pursuant to a Severance Agreement.

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, $94,200; Mr. Keesee, $51,672; Mr. Romans, $52,000; Mr. Powell, $21,211; Mr. Blumenshine, $12,706; and all executive officers as a group, $273,682.

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 is not subject to forfeiture. Benefits are generally payable only on termination of employment or retirement. The Company terminated the PAYSOP effective January 1, 1987 due to changes in the tax laws.

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. However, payments will not be made if a participant receives a payment pursuant to a Severance Agreement. The SVP is unfunded and is not qualified under ERISA. Messrs. Keesee and Romans 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, provided certain conditions are met, to a participant's spouse upon a participant's death. Under certain circumstances, in the case of unusual corporate events such as certain changes in control of the Company, or in the case of termination, participants may be entitled to benefits under the SERP on an accelerated basis. However, payments will not be made if a participant receives payment pursuant to a Severance Agreement. 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, 18 years; Mr. Romans, 14 years; Mr. Powell, 37 years; and Mr. Blumenshine, 32 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

	Years of Service(1)	
Remuneration	**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
1,750,000	583,333	875,000
2,000,000	666,666	1,000,000
2,250,000	750,000	1,125,000

(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) selected those officers and key employees who

were eligible to receive options, the number of shares granted to each and the period during which the options may be exercised. The options were 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 1986, 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 (excluding those members eligible to receive options under the 1985 Plan) 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 table shows, 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:

Stock Options	Robert E. Mullane	Roger N. Keesee	Donald B. Romans	Charles T. Powell	Jerry A. Blumenshine	All Executive Officers as a Group (1)
Granted—January 1, 1986 to December 31, 1986:						
Number of stock options and stock appreciation rights	82,000	35,000	35,000	27,000	27,000	341,000
Average per share exercise price	$19.92	$19.98	$19.98	$19.89	$19.89	$19.92
Exercised—Net value realized in shares (market value less exercise price) or cash:						
January 1, 1986 to December 31, 1986	$ —	$ —	$ —	$ —	$ —	$ —

(1) Information is included for each person of the eleven persons in the group only for the portion of the year each person was a member of the group and includes information with respect to one executive officer who resigned during 1986.

During 1986 the Company granted, pursuant to the 1985 Plan, options covering 663,000 shares of Common Stock, of which 341,000 are in tandem with stock appreciation rights.

The Board of Directors previously had a policy of considering loans to officers of the Company upon request 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 would 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.

Two promissory notes from Mr. Mullane, representing interest free loans originally made in connection with the above-described policy, were replaced in 1986 by one secured promissory note in the principal amount of $119,084. This note provides for payment, commencing on July 2, 1986, of interest in annual installments at 7.23% until July 1, 1988, when the entire principal balance and accrued interest thereon is due and payable. Two other promissory notes from Mr. Mullane, also to the Company, representing loans originally made in connection with the above-described policy, 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 note thereafter. The principal balance of each of the two notes is due and payable on October 5, 1995. The highest principal balance of each of the two notes during 1986 and the principal balance at March 1, 1987 was $611,799 and $617,056, respectively.

Mr. Blumenshine received a loan in 1983, the highest principal balance of which during 1986 and at March 1, 1987 was $164,718. During the last fiscal year no other loans granted pursuant to the policy were outstanding.

INTEREST OF MANAGEMENT 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 $150,000. At February 26, 1987, $100,000 was outstanding.

LEGAL PROCEEDINGS

On or about December 9, 1986, a purported derivative and class action, entitled *Rand, et al. v. Bally Manufacturing Corporation, et al.*, was filed against the Company and its Board of Directors in the Court of Chancery of the State of Delaware, New Castle County. The complaint alleges, among other things, breaches of fiduciary duties arising out of certain actions of the Company, including the implementation of the Company's shareholders' rights plan (the "Shareholders' Rights Plan") adopted by the Company's Board of Directors on December 4, 1986, and the initiation of litigation by the Company against Donald J. Trump and related entities, ("Trump"). The plaintiffs seek, among other things, (i) certification as a class action; (ii) an injunction against the operation of the Shareholders' Rights Plan; (iii) an order

requiring the members of the Company's Board of Directors to account to the plaintiffs, the class and the Company; (iv) an order requiring the Company's Board of Directors to negotiate in good faith with Trump and any other person interested in acquiring the Company; and (v) costs, disbursements and attorneys' fees. The Company believes the action is without merit.

On or about December 10, 1986, a purported derivative and class action, entitled *O'Neill v. Bally Manufacturing Company, et al.*, was filed against the Company and its Board of Directors in the Circuit Court of Cook County, Illinois. The complaint, as amended, adds Trump as a defendant and alleges, among other things, that the directors of the Company breached their fiduciary duties and wasted the Company's assets in connection with certain actions, including the Company's purchase of 2,600,000 shares (the "Shares") of the Company's common stock (the "Common Stock") from Trump, the adoption of the Shareholders' Rights Plan and the acquisition of the Golden Nugget casino hotel in Atlantic City. The amended complaint also alleges that Trump made certain misrepresentations in December, 1986 and January, 1987 upon which the plaintiff relied in making investment decisions concerning the Common Stock. The plaintiff seeks, among other things, injunctive relief ordering a return to the Company of all funds paid to Trump for the Shares in excess of the market price for the Shares, holding the defendants liable to the Company for wasting the Company's assets and enjoining defendants from further misrepresentations concerning the Company. The amended complaint also seeks unspecified damages, interest, costs and attorneys' fees. The Company believes the action is without merit.

On or about January 30, 1987, a purported derivative and class action, entitled *Three Bridges Investment Group v. Bally Manufacturing Corporation, et al.*, was filed against the Company and its Board of Directors in the United States District Court for the District of New Jersey. The complaint, as amended, alleges, among other things, violations of the federal securities laws and breaches of fiduciary duties arising out of certain conduct of the Company, including the Company's purchase of the Shares from Trump, the implementation of the Shareholders' Rights Plan, the Company's suit against Trump, the proposed acquisition of the Golden Nugget casino hotel in Atlantic City, and the Company's proposed restructuring. The plaintiff seeks, among other things, certification as a class action, unspecified monetary damages, an order rescinding the Company's purchase of the Shares, and costs, disbursements and attorneys' fees. The Company believes the action is without merit.

On or about February 25, 1987, a purported derivative and class action, entitled *Mittleman v. Donald J. Trump, et al.*, was filed against the Company, its Board of Directors, certain officers of the Company, Trump and The Trump Organizations, Inc. in the United States District Court for the District of New Jersey. The complaint alleges, among other things, that the Board of Directors of the Company and the officers of the Company named as defendants, aided and abetted by Trump, breached fiduciary duties owed to the Company and its shareholders by taking various "anti-takeover" actions, including the payment of a premium to Trump for the Shares, for the purpose of preventing a change in control of the Company and without any legitimate business purpose. The complaint also alleges that the agreement pursuant to which the Company purchased the Shares is an invalid and void contract of adhesion. The plaintiff seeks, among other things, a judgment awarding the Company approximately $24 million in compensatory damages and an additional sum of at least $24 million in punitive damages; alternatively, declaring the contract pursuant to which the Company purchased the Shares null and void and establishing a constructive trust of the consideration received by Trump pursuant to such contract pending final disposition of the action and directing the Company to return to Trump the Shares; or alternatively, ordering defendants to offer to all stockholders of the Company the per share value the Company paid to Trump pursuant to the terms of the foregoing contract plus at least $24 million in punitive damages. The Company believes the action is without merit.

On or about February 26, 1987, a purported derivative and class action, entitled *O'Neill v. Bally Manufacturing Corp., et al.*, was filed in the United States District Court for the District of New Jersey against the Company, its Board of Directors and Trump. The complaint alleges, among other things, that the defendants made various misstatements of material fact or omitted to state certain material facts concerning a possible purchase by the Company of the Common Stock owned by Trump, the members of the Company's Board of Directors breached their fiduciary duties and wasted the Company's assets in causing the Company to purchase the Shares and in otherwise engaging in an alleged plan of entrenchment and Trump breached a fiduciary duty he owed to the Company's stockholders in agreeing to sell and selling the Shares to the Company. The plaintiff seeks, among other things, a judgment ordering that the action can proceed as a class action, rescinding the agreement pursuant to which the Company purchased the Shares, redeeming the Company's Shareholders' Rights Plan and ordering that the defendants compensate the Company and its stockholders for the loss in value of their stock and of the Company's assets arising from defendants' actions. The Company believes the action is without merit.

On or about March 2, 1987, a purported derivative action, entitled *Fry v. Bally Manufacturing Corp., et al.*, was filed against the Company, its Board of Directors and Trump in the United States District Court for the Northern District of Illinois. The complaint alleges, among other things, that the Board of Directors of the Company breached their fiduciary duties by causing the Company to purchase the Shares from Trump. The plaintiff seeks, among other things, a judgment requiring defendants to account to the Company for their profits and the Company's losses and assessing punitive damages of $50 million against the defendants. The Company believes the action is without merit.

On or about March 12, 1987, a purported derivative action, entitled *Caesar, et al. v. Bally Manufacturing Corporation, et al.*, was filed against the Company, its Board of Directors and Trump in the Supreme Court of the State of New York in the County of New York. The complaint alleges, among other things, that the directors of the Company breached their fiduciary duties and wasted the Company's assets by causing the Company to purchase the Shares. The plaintiffs seek, among other things, a judgment rescinding the agreement pursuant to which the Company purchased the Shares and directing the Company's Board of Directors and Trump to account to the Company for the damages it sustained and for benefits received by them as a result of such agreement. The Company believes the action is without merit.

On or about December 17, 1985, the Company, Bally's Park Place and the Board of Directors of Bally's Park Place (who include Robert E. Mullane, Walter Wechsler, and James R. Cowan, 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, Inc., et al.*, filed in the Court of Chancery of the State of Delaware, New Castle County. The complaint relates to the merger of Bally's Park Place into a wholly owned subsidiary of the Company (the "Bally's Park Place Merger"), which was consummated in June, 1986. The complaint alleges, among other things, that, in connection with the Bally's Park Place Merger, Bally's Park Place and its directors violated their fiduciary duties, and the Company breached its duties as the majority stockholder of Bally's Park Place and offered an inadequate price per share constituting a fraud on the public stockholders of Bally's Park Place. The complaint seeks, among other things, unspecified damages. The Company believes the action is without merit.

PROPOSAL TO AMEND ARTICLE SEVENTH OF THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION

The Board of Directors of the Company recommends that the stockholders approve a proposal to amend Article SEVENTH of the Restated Certificate of Incorporation of the Company (the "Amendment"). Section 1 of the Amendment would limit the personal liability of the Company's directors to the Company or its stockholders for monetary damages for breach of fiduciary duty. Section

2 of the Amendment would define and clarify the rights of certain individuals, including the Company's directors and officers, to indemnification by the Company in the event they incur personal liability or expenses as a result of certain litigation against them.

Section 1 of the Amendment is consistent with Section 102(b)(7) of the General Corporation Law of the State of Delaware (the "DGCL"), enacted by the Delaware Legislature in June, 1986. That Section is designed to encourage qualified individuals to serve as directors of Delaware corporations by permitting Delaware corporations to include in their certificates of incorporation a provision limiting directors' liability for monetary damages for breach of the fiduciary duty of care.

Section 2 of the Amendment is consistent with existing DGCL provisions permitting indemnification of certain individuals including directors and officers. In order to be included in the Certificate of Incorporation, provisions such as Section 2 must be approved by stockholders.

The text of the Amendment is included as Exhibit A to this Proxy Statement. The following description is qualified by the full text of the Amendment. Stockholders are encouraged to read the Amendment in its entirety.

Purposes of Amendment. Under the DGCL, the Board of Directors has the ultimate responsibility for managing the business and affairs of a corporation. In the discharge of that responsibility, the law holds directors to fiduciary duties of care and loyalty to their corporation and its stockholders. The duty of loyalty requires that, in making a business decision, directors act in good faith and in the honest belief that the action is being taken in the best interests of the corporation and its stockholders. The duty of care requires that directors exercise an informed business judgment. Directors of public corporations, such as the Company, may be subject to substantial personal liability for actions taken or omitted by them as directors as well as to significant expenses in defending their conduct. In performing their duties, directors of Delaware corporations are obligated as fiduciaries to exercise their business judgment and act in what they reasonably determine, in good faith after appropriate consideration, to be in the best interests of the corporation and its stockholders. Decisions made on that basis are protected by the so-called "business judgment rule" and, the Board of Directors of the Company believes, should not be "second guessed" by a court in the event of a lawsuit challenging such decisions. The business judgment rule is designed to protect directors from personal liability to the corporation or its stockholders when their business decisions are subsequently challenged. However, as a result of the expense of defending lawsuits, the frequency with which unwarranted litigation is brought against directors and the inevitable uncertainties of applying the business judgment rule to particular facts and circumstances, directors and officers of a corporation rely on indemnity from, and insurance procured by, the corporation for which they serve. The DGCL has for some time recognized the need to provide meaningful protection against the risk to directors of paying potentially large sums out of their personal resources. In this regard, the DGCL has provided and continues to provide for indemnification by a corporation of its directors and officers in certain situations. The DGCL also permits a corporation to obtain insurance to protect directors and officers against certain liabilities with respect to which indemnification is not permitted. Recently, however, the market for directors and officers' liability insurance has changed significantly. Many corporations are experiencing difficulty in obtaining adequate liability insurance coverage for their directors and officers (both in the scope of coverage and the dollar amount of insurance) and in many cases the cost of such insurance, if available, has become prohibitive. The Board of Directors of the Company believes that these developments will have an adverse effect on the ability of many public corporations to attract and retain qualified persons to serve as directors. Although the Company has not directly experienced a problem in recruiting and retaining directors, the adoption of the Amendment is necessary for the Company to continue to be able to attract and retain qualified persons to serve on

the Board. While the Company has been able to obtain insurance coverage for directors and officers, the Company has experienced an increase in premiums and a decrease in total coverage symptomatic of the problems in the liability insurance industry. The Amendment is designed to assure that the directors and officers of the Company do not lose the protection that they have had in the past if insurance coverage decreases or becomes unavailable.

Recognizing the potential threat to Delaware corporations caused by the recent changes in the market for liability insurance for directors and officers, the Delaware Legislature in June, 1986 enacted amendments to the DGCL designed to permit Delaware corporations to limit directors' liability under certain circumstances and clarifying the scope of indemnification authorized by the statute. Accordingly, the Delaware Legislature revised the DGCL to (i) permit Delaware corporations to limit or eliminate personal liability of directors under certain circumstances by means of an amendment to the certificate of incorporation approved by stockholders; and (ii) clarify the ability of corporations to provide substitute protection in the form of indemnification. Stockholders should be aware that the Company's directors have a personal interest in the adoption of the Amendment, at the potential expense of the stockholders, because it removes the threat of directors' personal liability for certain claims for monetary damages in derivative lawsuits.

Director Liability. Section 1 of the Amendment would protect directors of the Company from personal liability for monetary damages for breaches of their fiduciary duty of care. Under Delaware law, absent adoption of the Amendment, directors can be held liable for gross negligence in the performance of their fiduciary duty of care but not for simple negligence. If adopted by the stockholders, Section 1 of the Amendment would protect directors from personal liability for negligence in the performance of their duties, including gross negligence. Directors would remain liable for breaches of their duty of loyalty to the Company and its stockholders, as well as for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law and transactions from which directors derive improper personal benefit. Section 1 of the Amendment would not absolve directors of liability under Section 174 of the DGCL, which makes directors personally liable for unlawful dividends or unlawful stock repurchases or redemptions and expressly sets forth a negligence standard with respect to such liability.

Section 1 of the Amendment would not eliminate, or change the directors' fiduciary duty of care under Delaware law, although it would protect directors from awards of monetary damages for breaches of the duty of care. Neither would the Amendment affect the rights of the Company's stockholders with respect to any liability of directors under the federal securities laws nor would it limit the availability of equitable remedies such as an injunction or rescission based on directors' breach of the duty of care. The Amendment does not eliminate or limit the liability of directors for any act or omission occurring prior to the effectiveness of the Amendment. Therefore, Section 1 of the Amendment, if adopted, would have no effect on pending litigation alleging a breach of fiduciary duty by directors. However, if Section 1 of the Amendment had been in effect at the time the Company's Board of Directors took the actions challenged in the lawsuits described in "Legal Proceedings" above, recovery from directors of monetary damages sought therein would have been barred to the extent the suits allege breaches of the directors' duty of care.

Indemnification and Insurance. Under Section 2 of the Amendment, directors and officers as well as other employees and individuals may be indemnified against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement in connection with specified actions, suits or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company—a "derivative action"), if they acted in good faith and in the manner they reasonably believed to be in, or not opposed to, the best interests of the Company and, with respect to any criminal action

or proceeding, if they had no reasonable cause to believe their conduct was unlawful. A similar standard of care is applicable in the case of derivative actions, except that the indemnification only extends to expenses (including attorneys' fees) incurred in connection with the defense or settlement of such actions, and the Certificate of Incorporation requires court approval before there can be an indemnification of persons who have been found liable for negligence or misconduct in the performance of their duty to the Company.

Section 2(a) of the Amendment would provide that persons who were or are made parties to, or are threatened to be made parties to, or are involved in, any action, suit or proceeding, including actions alleging violations of the Securities Act of 1933, by reason of the fact that they are or were directors or officers of the Company (or were serving at the request of the Company as directors, officers, employees or agents for another entity) shall be indemnified and held harmless by the Company, to the fullest extent authorized by the DGCL, as currently in effect (or, to the extent indemnification is broadened, as the DGCL may be amended) against all expense, liability or loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) reasonably incurred by such persons in connection therewith. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted under Section 2(a) of the Amendment in the opinion of the Securities and Exchange Commission, such indemnification is against public policy and is therefore unenforceable.

Section 2(a) would further provide that rights conferred thereby shall include the right to be paid by the Company for all expenses incurred in defending the proceedings specified above, in advance of their final disposition, provided that, if the DGCL so requires, such payment shall only be made upon delivery to the Company by the indemnified parties of undertakings to repay all amounts so advanced if it shall ultimately be determined that the persons receiving such payments are not entitled to be indemnified under such Section 2 or otherwise. Section 2(a) would provide that the Company may, by action of its Board of Directors, provide indemnification to its employees and agents with the same scope and effect as the foregoing indemnification of directors and officers.

Section 2(b) would provide that persons indemnified under Section 2(a) may bring suit against the Company to recover amounts claimed thereunder which are not paid in full by the Company within thirty (30) days of a written claim, and that if such suit is successful, the expense of bringing such suit shall be reimbursed by the Company. Section 2(b) would also provide that while it is a defense to such a suit that the persons claiming indemnification have not met the applicable standards of conduct making indemnification permissible under the DGCL, the burden of proving the defense shall be on the Company and neither the failure of the Board of Directors to have made a determination that indemnification is proper, nor an actual determination by the Board of Directors that claimants have not met the applicable standard of conduct, shall be a defense to the action or create a presumption that the claimants have not met the applicable standard of conduct.

Section 2(c) would provide that the right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in Sections 2(a) and 2(b) would not be exclusive of any other right which any persons may have or acquire under any statute, provision of the Company's Certificate of Incorporation or By-Laws, or otherwise. Finally, Section 2(d) would provide that the Company may maintain insurance, at its expense, to protect itself and any of its directors, officers, employees or agents against any expense, liability or loss, whether or not the Company would have the power to indemnify such persons against such expense, liability or loss under the DGCL.

The provisions of Section 2 of the Amendment would change the Certificate of Incorporation in several respects. The Amendment requires the Company to indemnify certain persons to the fullest extent authorized by the DGCL, but makes it explicit that any amendment to the DGCL will not have any effect (with respect to actions prior to the date of such change or with respect to the contract rights of directors under Section 2(a) of the Amendment) unless it permits the Company to provide broader indemnification rights than previously were permissible.

The Amendment specifies that any indemnification thereunder continues as to persons who have ceased to be directors or officers of the Company and inures to the benefit of their heirs, executors and administrators and provides that the right to indemnification is a contract right. The current Certificate of Incorporation does not provide that the right to indemnification is a contract right. The Amendment modifies the current provision by making advances of expenses incurred in defending a proceeding mandatory provided that, if required by the DGCL, the persons seeking such advances provide an undertaking to the Company to repay all amounts so advanced if it shall ultimately be determined that persons receiving such expenses are not entitled to be indemnified.

The Amendment adds a new provision that explicitly provides that persons claiming indemnification may sue the Company for payment of any amounts incurred, that the Company in that case will have the burden of proving that the claimants have not met the standards of conduct that make it permissible to indemnify the persons for the amount claimed under the DGCL and that neither the failure by the Board of Directors, independent legal counsel or stockholders of the Company to determine whether indemnification is proper, nor an adverse determination of any of such persons, will be a defense or create a presumption that the persons have not met the applicable standard of conduct. Finally, the Amendment adds a new provision which carries forward the indemnity obligations of the Company to any resulting or surviving corporation, as well as any constituent corporation absorbed in a consolidation or merger. The Amendment, however, would not preclude stockholders of the Company from challenging actions of the Board of Directors as invalid or unenforceable.

Litigation that might result in large damage awards for which indemnification by the Company is required could affect a stockholder's investment directly because the Company could be responsible for the payment of awards which exceed its directors' liability insurance coverage. Further, if the Company acts as a self-insurer in the future, large indemnification claims could reduce the Company's assets and/or stockholders' equity. Section 2 of the Amendment would provide for mandatory indemnification of directors to the fullest extent permitted by the DGCL, including retroactively, with respect to lawsuits currently pending against the Company's directors, see "Legal Proceedings".

The favorable vote of a majority of the outstanding shares of Common Stock entitled to vote at the Annual Meeting will be required for approval of the Amendment.

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 1987.

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 has retained D. F. King & Co., Inc., 60 Broad Street, New York, New York 10004, to assist in the soliciting of proxies and will pay that firm a fee of $10,000 for such services, excluding out of pocket expenses. The Company will also reimburse brokerage houses and others for forwarding proxy material to beneficial owners of stock.

STOCKHOLDER PROPOSALS FOR THE 1988 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, Vice President, Secretary and General Counsel, Bally Manufacturing Corporation, 8700 West Bryn Mawr Avenue, Chicago, Illinois 60631, is December 2, 1987.

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 1986 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, Vice President, 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
Vice President, Secretary
and General Counsel

Chicago, Illinois
March 24, 1987

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