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Thursday | Nov 13, 2003 Last Update 11:33 pm
Alliance to buy Reno's Sierra Design Group

Thomas J. Walsh
 RENO GAZETTE-JOURNAL
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Las Vegas-based slot machine manufacturer Alliance Gaming Corp. announced Tuesday an agreement to acquire Reno-based Sierra Design Group, a low-profile supplier of slot machine and video lottery games, systems and technology.

The deal gives the publicly traded Alliance 100 percent of SDG in exchange for \$45 million in cash and stock, the assumption of SDG's debt and \$95 million of "contingent consideration."

Contingent consideration means the \$95 million portion is payable in more cash and stock during the three years following the acquisition, as long as SDG hits certain financial objectives.

Although SDG designs traditional slot machines, it is primarily known as a strong designer of Class II and VLT (video lottery terminal) gaming devices. Traditional slots that gamblers find in Nevada casinos are designated as Class III.

Class II machines generally are bingo games with electronic displays that resemble slots. They are multiple-participant games where at least two players have to play in the same location.

VLTs are slot-like devices that give players a variety of lottery games — such as traditional pull-tab or "scratch-off" games — in an electronic format.

Today, the potential for an expansion of Class II and VLT machines in certain gaming jurisdictions around the country is high, as gambling in general — at tribal casinos and at racetracks — is debated in state legislatures and among voters. In some jurisdictions, regular Class III slots are illegal, while laws regarding Class II machines or VLTs generally are nonexistent.

With Indian gaming, the upside is considered huge. In California, for example, Class II machines and VLTs are not part of tribal compacts with the state, thus enabling those casinos to expand even if today's limit of 2,000 Class III slots is changed by Gov. -elect Arnold Schwarzenegger.

"With the emerging VLT and 'racino' markets poised for growth, both domestically and internationally, we are now favorably positioned to be a significant provider of technology to these markets," Alliance President/CEO Robert Miodunski said in a statement.

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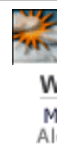
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SDG's expertise in Class II and VLT software made the company an attractive buy, most analysts said.

Alliance is traded on the New York Stock Exchange, and its deal to acquire SDG received plenty of attention Tuesday.

"The acquisition is an additional step in Alliance Gaming's strategy of growing its core gaming equipment business while selling non-core operations," rating agency Standard & Poor's said in a statement.

In an equity research paper published Tuesday, JP Morgan Securities analysts wrote that expectations are high for the growth of Class II gaming, but said legal obstacles could be significant as future state compacts are negotiated.

The JP Morgan report also said the Nevada Gaming Commission has yet to take a definitive stance on Class II gaming.

"To the extent SDG is (National Indian Gaming Commission) compliant, we believe no regulatory issues exist," wrote equity analysts for Sterne, Agee & Leach, a securities firm in Birmingham, Ala. "In our view, AGI has made an excellent strategic acquisition."

In New York, Deutsche Bank analysts agreed.

"(The acquisition) gives AGI immediate access into the fast-growing Class II gaming market (in Oklahoma, Florida and Alabama) ... as well as enhances its systems business," Deutsche Bank's analysts wrote. "In addition, SDG is one of the four suppliers for the New York VLT market, doubling AGI's market share."


Deutsche also said that AGI has loaned SDG \$51 million to repay its debt and guaranteed it a \$24 million line of credit.


Officials at SDG could not comment on the deal because of Securities and Exchange Commission rules.


Founded in 1996 by former International Game Technology software engineer Bob Luciano, the company employs about 370 full-time workers, and is expected to remain in Reno, officials said.


The acquisition, subject to regulatory approvals and other closing conditions, is expected to close in the first half of 2004.

Alliance's stock closed down 10 cents, at \$25.90, on volume of 1.03 million shares — more than twice its daily average.









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