

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange

Act of 1934 for the fiscal year ended December 31, 2001 or

Transition report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

Commission File Number: 0-22752

MIKOHN GAMING CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

88-0218876

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

920 Pilot Road, P. O. Box 98686, Las Vegas,

NV 89119

(Address of principal executive office)

(Zip code)

Registrant's telephone number, including area code: (702) 896-3890

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each Exchange
on which registered:

None

None

Securities registered pursuant to Section 12(g) of the Act

Common Stock, par value \$.10 per share

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
Registrant was required to file such reports), and (2) has been subject to
filing requirement for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K, or any amendment to
this Form 10-K. ☒

The number of shares of common stock outstanding as of March 20, 2002, was
12,798,558. The market value of the common stock held by nonaffiliates of the
Registrant as of March 20, 2002, was approximately \$55,905,755. The market value
was computed by reference to the closing sales price of \$5.990 per share of
common stock on the NASDAQ National Market System as of March 20, 2002.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III hereof incorporates by reference portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2002 (to be filed with the Securities and Exchange Commission within 120 days after December 31, 2001).

ii

CAUTIONARY NOTICE

This Annual Report of Mikohn Gaming Corporation on Form 10-K contains forward-looking statements subject to the "safe harbor" legislation appearing at Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements expressing expectations regarding our future (including pending gaming and patent approvals) and projections relating to products, sales, revenues and earnings are typical of such statements.

All forward-looking statements, although made in good faith, are subject to the uncertainties inherent in predicting the future. Factors such as competition, customer dissatisfaction, failure to gain new product acceptance, software problems, internet gaming legalization, our maintaining licenses for branded games, our relationship with TAB, Ltd., our dependence on Sigma Game Inc., our operating history, our high leverage and accompanying debt service obligations, onerous taxation and other adverse government action (including, without limitation, with respect to gaming regulations and our gaming licenses and product approvals), unusual risks attending foreign transactions, general deterioration in economic conditions, effects of the September 11 terrorist acts, terrorism in general and governmental response thereto, and regulatory actions relating to our use of Arthur Andersen LLP as our auditors may cause results to differ materially from any that are projected.

Forward-looking statements speak only as of the date they are made. Readers are warned that we undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur, and are urged to review and consider disclosures we make in this and other reports that discuss factors germane to our business. See particularly our reports on Forms 10-K, 10-K/A, 10-Q, 10-Q/A and 8-K filed from time to time with the Securities and Exchange Commission

MIKOHN GAMING CORPORATION
ANNUAL REPORT ON FORM 10-K FOR THE
YEAR ENDED DECEMBER 31, 2001

TABLE OF CONTENTS

PART I		
Item 1.	Business	2
Item 2.	Properties	19
Item 3.	Legal Proceedings.	20
Item 4.	Submission of Matters to a Vote of Security Holders	20
PART II		
Item 5.	Market for Registrant's Common Stock and Related Security Holder Matters	21
Item 6.	Selected Financial Data	22
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 8.	Consolidated Financial Statements and Supplementary Data	36
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	82
PART III		
Item 10.	Directors and Executive Officers of the Registrant	82
Item 11.	Executive Compensation	82
Item 12.	Security Ownership of Certain Beneficial Owners and Management	82
Item 13.	Certain Relationships and Related Transactions	82
PART IV		
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	82

PART I

Item 1. Business

Operations

Our worldwide operations are concentrated in two principal business segments: gaming operations and product sales. Our gaming operations segment includes proprietary branded and unbranded slot machines and table games, including our Yahtzee(R), Battleship(R) and Ripley's Believe It or Not!(R) series of slot machines and our Caribbean Stud(R) table game. Our product sales segment includes signage, progressive jackpot systems, and player tracking and accounting systems for slot machines and table games. Set forth below is a description of each of our two principal business segments.

Gaming Operations Segment

We established our gaming operations business unit to develop, acquire, manufacture and distribute proprietary games, and these have become increasingly important to our business. We have given increased attention to gaming operations because of the high recurring revenues and profit margin potential for this business line. We own or license from third parties the rights to several categories of proprietary games, which we place in casinos under lease arrangements. These leases provide for either fixed rental payments or participation in the game's operating results. Sales of proprietary games are reflected in the reported results of our product sales business segment while revenues derived from leases are included in the results of our gaming operations business segment. Reported revenues relating to our branded games are net of royalties. Set forth below are descriptions of some of our significant proprietary slot machines and table games that are placed under lease arrangements.

Slot Operations. Our slot operations include such products as our Yahtzee(R), Battleship(R), Ripley's Believe It or Not!(R) and MoneyTime(TM) slot machines.

Branded Slot Games. Under an exclusive license from Hasbro, Inc., we developed a series of casino slot games based on Yahtzee(R), a well-known dice game. In 2000, we introduced a slot game based on Battleship(R), another well-known game that we also license from Hasbro, Inc. Our Yahtzee(R) and Battleship(R) games were each named among the top 20 most innovative products in 2000 and 2001 by the Casino Journal Publishing Group.

Introduced to Nevada casinos in the late summer of 1999, the first two versions of our Yahtzee(R) slot game were spinning reel slots topped with oversized mechanical dice, to be rolled by a player to provide a bonus opportunity. In December 1999, we introduced our Yahtzee(R) video game, a five-reel, 45-coin, nine-line video game. Special features include an interactive, animated second screen and a random scatter-pay bonus, both presenting three-dimensional dice characters. We selected the Dallas series video platform from Sigma Game, featuring technology providing superior graphic and audio capabilities.

In the fourth quarter of 2000, we introduced our Battleship(R) All Aboard(TM) video game. The Battleship(R) slot game is interactive containing both strategy and skill elements. The game was developed in the nine-line five-reel video slot format with a maximum play of up to 90 coins. In addition to the base game, players have the opportunity to test their skill, as well as win more money, with three special bonus games. One object of the bonus games is to destroy an enemy fleet of four ships of various sizes concealed within an ocean grid in eight shots or less, similar to that of the traditional board game.

In the second quarter of 2001, we released the Yahtzee(R) Mystery Winner(TM) game, another version of video Yahtzee(R), which couples the familiar name of Yahtzee(R) with a mystery theme and three bonus features. Yahtzee(R) Mystery Winner(TM) video slot is a five-reel, nine-line, 90-coin maximum-bet game. Like the original Yahtzee(R) slot game, it has the bonus play of allowing players to play a Yahtzee(R) hand versus a general payable.

In the second quarter of 2001 we launched our Ripley's Believe It or Not!(R) Adventures in Trivia(TM) video slot game as the first trivia-based slot game. This five-reel, nine-line, 90-coin maximum-bet game, the first within our Think Big(TM) series, incorporates scores of human-interest questions. Players win based on the accuracy of their responses. Players win more if they are right, but win something even if they are wrong.

In June 2000, we entered into an exclusive, worldwide licensing agreement with Hasbro, Inc. to develop a slot version of Hasbro's Clue(R) board game. The Clue(R) Winning Solution(TM) video slot game, the second release within our Think Big(TM) series, is scheduled for release in the second quarter of 2002. The Clue(R) slot game is based on the classic "whodunit" as players compete to find out who contributed to the demise of the unfortunate Mr. Boddy. With six characters, six weapons and nine rooms, there are a potential 324 different combinations. Three main bonuses exist. The primary "Winning Solution" bonus utilizes the home-game theme of identifying who, what and where for the untimely demise of Mr. Boddy. Additionally, when the player successfully completes the "Winning Solution" bonus, he or she advances to the "Inheritance" bonus in which Mr. Boddy's inheritance is collected for solving the crime. A secondary "Card Caper" bonus utilizes the selection of cards in a multi-stage game with secret passages. A third Mystery Trivia bonus adapts mystery/detective questions to the knowledge-based casino format.

In September 2000, we entered into a licensing agreement with Hasbro, Inc. to develop a slot version of the best selling trivia game, Trivial Pursuit(R). The Trivial Pursuit(R) slot will utilize a multi-coin, multi-line video platform featuring bonus rounds that features the famous Trivial Pursuit(R) question database. Similar to the home board game version of Trivial Pursuit(R) a player will have the ability to select his or her favorite question category on some bonus rounds. We plan to introduce the Trivial Pursuit(R) slot in the second half of 2002.

Since our founding, we have been a market leader in progressive slot machine technology as an equipment supplier to casinos and other slot game manufacturers. We currently are developing a wide area progressive system which we will operate, linking slots with a progressive jackpot feature between casinos. We are developing a wide area progressive game named Wink's Survey of America with television game show host Wink Martindale, as emcee. This game offering will be on a video multi-game, multi-line platform. We intend to introduce this wide area progressive system game during the first quarter of 2003.

Mikohn Branded Slot Games. To date, our primary Mikohn branded slot game has been MoneyTime(TM). We also have a pachinko-style slot game under development through a joint product development and profit-sharing agreement with Anchor Gaming, a subsidiary of International Game Technology, Inc.

MoneyTime(TM), developed in 1997, is a slot game. It uses bonusing to initiate, extend and increase play. Typically, 40 slot machines are configured in a carousel with extensive overhead thematic signage manufactured by us promoting the MoneyTime(TM) game. Each slot machine is linked into a progressive jackpot system. When the progressive pool generated reaches a randomly determined level within a specified range, the system triggers a bonus mode in which multiple players are awarded portions of the jackpot in rapid succession. On March 27, 2001, we received an adverse decision in the patent infringement action brought against us by Acres Gaming alleging that our MoneyTime(TM) game infringed four patents issued to Acres Gaming. The jury returned a verdict against the Company on two of the four patents and awarded damages of \$1.5 million to Acres Gaming. After initially appealing the verdict, we settled the case in December 2001. The damage award was paid and we received a license to use the Acres patents. The \$1.5 million damage award was expensed in the fourth quarter of 2000. See "Business--Legal Proceedings."

On December 31, 2001, we had 2,679 third-party branded slot games on lease and 415 Mikohn- branded games compared to 2,009 and 477, respectively for the year ended December 31, 2000. Total slot lease revenues were approximately \$27.5 million for 2001.

Table Games. We embarked on a strategy of creating a variety of specialty table games for casinos. We were the first company in the industry to introduce table games featuring licensed board game brands through our exclusive license agreements with Hasbro, Inc. We licensed the Monopoly(R) brand name for table games from Hasbro, Inc. and we introduced poker and blackjack table games featuring elements from the popular Monopoly(R) board game. We also licensed the Clue(R) and Yahtzee(R) brands from Hasbro, Inc for use on table games.

It is our experience that new table game concepts take considerably longer to be accepted in the market than new slot game concepts. This is due in part to the high training costs experienced by casino operators which makes them more reluctant to try new table games. In addition, we find that table game players tend to have one or two favorite games and are slow to try new concepts. It therefore takes longer to develop a base of players that favor any new table game product. However, once a loyal player base is established, we believe that table games enjoy a longevity significantly greater than that of new slot games.

We place table games directly with casino operators for a monthly fee at a fixed rate per table. Most of the agreements with the casinos are for three-year terms with a 30-day early cancellation clause. As of December 31, 2001, we had 1,134 revenue-producing table games installed that produced more than \$16.5 million in lease revenues for the year 2001. Set forth below are descriptions of some of our proprietary table games that are placed under lease arrangements.

Caribbean Stud(R) is the most popular proprietary table game in the world. As of December 31, 2001, approximately 900 of our Caribbean Stud(R) tables were in service worldwide, in more than 370 casinos in 38 jurisdictions. Caribbean Stud(R) table games have been available in casinos since 1988.

Caribbean Draw Poker(TM) is a variation of Caribbean Stud(R) in which players are allowed to turn in and draw up to two cards on their original five-card stud hand.

Tre' Card Stud(TM) is a three-card variation of Caribbean Stud(R). The game is approved in California, Indiana, Michigan, Mississippi, Missouri and Nevada.

Wild Aruba Stud(TM) is a variation of five-card stud poker. The game is approved in California, Connecticut, Iowa, Michigan, Mississippi and Nevada.

Progressive Blackjack(TM) is played as a standard blackjack game with an optional progressive side-bet feature. Players receive jackpot payments determined by a payout formula based on certain card combinations. Casinos typically benefit from the game because of the additional volume and win generated by increased play.

Progressive Jackpot Pai Gow(TM) Poker is played as a standard pai gow poker game with an optional progressive side-bet feature. Players receive progressive jackpot payments determined by a payout schedule based on certain winning card combinations. The game is approved in Indiana, Mississippi and Nevada and is pending approval in New Jersey and other major jurisdictions.

Progressive Bad Beat Stud Poker(TM) is approved in Mississippi and is pending approvals from other major jurisdictions.

Monopoly(R) Blackjack(TM) is a standard blackjack game with an optional side-bet wager and payouts that are based on certain card combinations. When players win, they can take a fixed payout or go to the Monopoly(R) board to try to improve their winnings. The game is currently in play in Nevada, California and Russia and has been submitted to several other major jurisdictions.

Monopoly(R) Poker Edition(TM) (Basic) is currently in play in Mississippi and has been submitted to several other major jurisdictions.

Product Sales Segment

We have been marketing gaming products around the world since 1987. Our gaming products are found in almost every major gaming jurisdiction and include:

- . interior casino signage;
- . exterior signage;
- . electronic components used in progressive jackpot systems;
- . player tracking and information gathering and control systems and
- . special order, oversized and other slot machines for sale.

Interior Casino Signage. We are known throughout the industry as an innovator of high-impact signage particularly designed for the gaming industry. Our product design capabilities, manufacturing capacity and worldwide distribution network make us the industry leader in interior casino signage. We design and manufacture interior signage and displays that are marketed and sold either as stand-alone signs or in combination with progressive jackpot systems.

Interior casino signage differs in many respects from other forms of signage. Casino signage typically features intricately detailed artwork, is constructed in a wide variety of unusual shapes, is finished and detailed with more expensive and delicate materials than other types of signage and often is covered by an artistic finish such as polished aluminum or acrylic laminate. Digital laser printers are used to produce sign faces which are then laminated, mounted on plexiglass and assembled onto the finished sign. The electrical components of the signs include fluorescent or incandescent backlighting and a wide-range of artistic lighting, including neon tubes, star-tubes, flashing incandescent lighting and fiber-optics.

Interior signage is used extensively in connection with the "theming" of interiors and the differentiation and identification of facilities. Custom processes enable us to conform signs to a casino's existing theme or to create distinctive themes for particular areas in a casino. Sales and design personnel work closely with the customer in the development of the design plans. Installations by Mikohn may be seen in mega-casinos such as the Bellagio, Mandalay Bay Resort, Aladdin, Paris and Venetian in Las Vegas, NV, and are also found in numerous other casinos in both domestic and foreign gaming jurisdictions.

The average construction period for an interior signage project is approximately three to eight weeks. The costs of interior signage projects vary widely, but most fall within a range of \$50,000 to \$2.0 million. We typically require a 50% down payment before commencing manufacturing, with an additional 25% due at shipping and the balance due upon 30 days after installation. While our interior signage is commonly incorporated into large projects, remodeling and small projects continue to stimulate demand.

Demand for interior signage has also been stimulated by the popularity and growth of progressive jackpots throughout the gaming industry. These often incorporate our interior signage into sophisticated merchandising programs. We believe we sell more casino interior signage worldwide than any other manufacturer.

Exterior Signage. We also design, manufacture, install and maintain exterior signage. These projects can vary from themed directional signage to multi-story, double-faced pylon signage such as the two exterior signs at the Bellagio in Las Vegas, NV. We have targeted the gaming industry for our exterior lighting and signage products and have supplied signs or lighting systems to major casinos in the U.S. and to a number of international customers.

We have successfully developed MikohnVision(R), using light emitting diodes, or LED systems, that enable us to produce spectacular displays on huge outdoor screens in up to 16.7 million colors. We have patents to protect various features unique to the MikohnVision(R) system. MikohnVision(R) makes it possible to offer real-time graphics, animation, text and video clips; to display photos, logos, video and real-time images; and to create instant, spectacular animations and messages at adjustable speeds.

The exterior signage business is much more competitive and therefore has a lower margin than interior signage. The sales price of exterior signage varies widely, although most contracts fall within a range of \$200,000 to \$2.0 million. Typically, we receive payments during the course of design, manufacture and installation. During the fourth quarter of 2001, we decided to discontinue our older non-LED version of MikohnVision(R) and recorded inventory reserve charges of \$800,000.

Progressive Jackpot Systems. A progressive jackpot system monitors play on one or more slot machines or table games and accumulates, in real-time, a predetermined percentage of each coin bet to create a jackpot. This jackpot increases continuously until won by a player. The system then can be reset automatically to accumulate and present subsequent jackpots. Progressive jackpot systems can serve a single machine or can be electronically linked with a number of slot machines to generate a collective jackpot. Progressive jackpot systems create larger jackpots to contribute added excitement to the game and to provide an incentive for players to play the maximum number of coins. Our table game progressive system is not offered for sale to casinos but is available only under lease or licensing arrangements .

Our progressive jackpot and bonus systems typically are comprised of three components: controllers, a color display of LEDs and software. The controllers draw data from the linked slot machines and continuously update the amount of the progressive jackpot from a number of games. This information is transmitted in real-time to the electronic displays in and around carousels of participating machines, accompanied by graphics, animation and sound effects. The software enables the casino operator to program the controllers and displays and to set various game options. The electronic displays capture and maintain a player's interest by continuously showing, on a real-time basis, the current amount of the progressive jackpot and by going into a "celebration" mode when a jackpot is hit.

Although controllers, displays and software are all included in every Mikohn progressive jackpot system, controllers and displays also are sold separately to slot machine manufacturers and casino operators. The software used to program the displays and controllers and monitor the systems and machine usage is proprietary, thereby inhibiting the operator from substituting components made by other manufacturers. Our progressive jackpot systems can be connected into multi-site progressive links among a number of casinos. The operator of the gaming machine is responsible for payouts of all jackpots.

Controllers. Our proprietary controllers are designed to be compatible with the gaming equipment made by the major slot machine manufacturers, including Aristocrat, Atronic, Alliance Gaming, Novomatic Industries, Sigma Game, Universal de Desarrollos Electronicos, S.A. (known as UNIDESA), WMS Industries and the industry giant, International Game Technology. Our controllers are licensed in almost every major gaming jurisdiction. We have the largest installed base of controllers in the industry. The sale of our controllers for a progressive jackpot system is frequently accompanied by the sale of our electronic displays promoting the system.

Electronic Displays. We manufacture displays in a wide variety of sizes and designs to accommodate the technical, aesthetic and price requirements of our casino customers. Our electronic displays are installed with slot machines manufactured by Alliance Gaming, Aristocrat, International Game Technology, Novomatic Industries, Sigma Game, UNIDESA and WMS Industries. Our displays are found in casinos throughout the world. We produce alphanumeric and graphic electronic displays for use in real-time applications with all major brands and models of slot machines. Our displays primarily use LEDs which can be turned on and off approximately 100 times per second and can be programmed to display information in a wide variety of formats, including flashing, panning from side-to-side, odometer, pulsating, scrolling up or down, painting (each character is formed from the top down), morphing and dancing colors (each character alternates color). LEDs also can utilize foreground or background color, user-selectable and downloadable font and text justification. Cells of LEDs may be combined to display characters and graphics in a variety of sizes ranging from small to very large. We supply displays to casinos and gaming equipment manufacturers including International Game Technology for their wide-area progressive systems.

In addition to our proprietary line of LED displays, we offer casinos the ability to attract players using the latest in high-resolution plasma displays. Utilizing our PC-based PlasmaPack(TM) controller, casinos can run real-time applications such as bonusing and progressives on large, high-resolution plasma displays. The latest addition to our electronic display line is the Rainbow Display(TM). The addition of blue LED technology to the display opens up vast opportunities for merchandising applications. The advanced LED technology provides a much brighter look than a plasma screen and assists in generating a very colorful presentation that helps sell games. These displays are available in a variety of sizes and are proving to be a great addition to the casino floor with their unparalleled color and brilliance.

Software. We design application software for use in connection with our progressive jackpot systems. The software permits the casino operator to set jackpot frequencies and levels in response to competitive factors and variations in customer demand and to set a maximum amount to be displayed as a jackpot (which effectively limits the casino's liability in the event of a programming or technical error). The software is programmable to accommodate a variety of international currencies, and is supplied either on a diskette for installation on the casino's stand-alone personal computer or on a memory card we sell for installation in a palmtop computer.

Our SuperLink(R) software package supplies a comprehensive, multi-faceted system for managing a progressive jackpot network from a central location. The SuperLink(R) system consists of Mikohn bonus and/or standard progressive controllers, a Mikohn smart interface board for each machine and a PC-hosted monitoring system. The system PC provides reports and statistics for bonus game play and features screens for configuration and set-up. It also links the interface packages of electronic displays, controllers and software into one total integrated package, permitting centralized control and facilitating the operation, programming and monitoring of progressive jackpots and bonuses. As a result, we believe that the SuperLink(R) system enables casino operators to manage their slot machines with greater efficiency, which can increase productivity, enhance security and reduce costs. Moreover, the SuperLink(R) system, with its built-in flexibility, is a system that will enhance both existing and new slot machines with new progressive, bonusing and merchandising features, including our MoneyTime(TM), Mystery Jackpot(TM) and Bonus Jackpot(TM) systems.

Bonusing Systems. A bonusing system provides a cash bonus which can be random or preset separate from the normal payout for a winning combination. While bonus amounts are typically lower than the top pay of the game, the frequency is high, providing a valuable merchandising tool for stimulating, extending and increasing the rate of play.

Bonus Jackpot(TM) provides a random cash bonus along with the normal payout for a winning combination. Any or all of eight progressive pay levels may be selected as the bonus level, and up to eight random bonuses can be set for each selected level.

Mystery Jackpot(TM) is a progressive system that randomly rewards patrons according to a fixed pay schedule. The bonus is triggered when the mystery (hidden) jackpot reaches a random level within a specified range. Once a winner is identified, a payout is randomly selected from one of eight awards. Mystery Jackpot(TM) awards a player a progressive jackpot just for playing; no winning reel combination or minimum coin-in is required. The range for the jackpot can be configured by the operator, and the system randomly selects a jackpot amount within that range and awards the jackpot via the credit meter to the player.

Accessories. We also supply a number of accessory products that allow the casino customer to operate a wider variety of progressive games, provide promotional messages, animated and graphic displays, and generate additional statistical and operating information from the slot machines linked to progressive jackpot systems. Available accessories also include devices to boost electrical outputs to a large number of displays, cable and fiber-optic connectors, devices to trigger visual or aural signals when a progressive jackpot is hit, and circuitry for the display of progressive jackpot amounts on the screens of video slot machines.

Keno. Under a licensing agreement with XpertX, Inc., we hold the exclusive worldwide distribution rights (outside Nevada) to the XpertX(TM) keno system. Key features of this keno system include: player tracking (player account information, player trip history, play and win amounts and buy-in limits); reporting (customized audit/management reports and inter-property progressive capabilities); display functions (in-room television keno display and advertising options); and built-in diagnostic software and disc mirroring features.

CasinoLink(R). Our CasinoLink(R) system is an integrated management system for the gaming enterprise. Operating on a Microsoft Windows NT(R) /2000 / SQL Server(R) platform, CasinoLink(R) provides its users with robust, highly scalable applications for accounting and auditing, administration and security, jackpot management and player marketing. CasinoLink(R) is exceptionally well suited to fulfill the requirements of large, geographically dispersed casino operators who require multi-site capability.

The CasinoLink(R) system is installed throughout the gaming operations of more than 20 casino operators worldwide. CasinoLink(R) is utilized domestically by single-site operators in California and Oregon and a multi-site operator in Nevada. We hold the dominant share of the gaming system market in Canada, with installations in the multi-site, provincial lottery corporations of Alberta, British Columbia, Ontario and Saskatchewan. The European market is home to single-site installations in Finland, Greece and Italy as well as to multi-site installations in the Netherlands, Estonia, Lithuania, Russia, the Slovak Republic, Slovenia and Sweden.

In November of 1999, we entered into an agreement with TAB, Ltd. of Sydney, Australia to serve as its exclusive provider of progressive jackpot management software. See Note 1--Description of Business and Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements. This system is currently being installed in the private club market in New South Wales, Australia by TAB, Ltd.

TableLink(R). We also develop and market automated data collection systems for player tracking and accounting for table games. These products include our patented TableLink(R) technology.

In 1995, we acquired the worldwide rights to develop, manufacture, market and distribute the technology incorporated in our TableLink(R) system, a player tracking and data collection system for table games. This system enables the casino to recognize and reward players, and enhances game security. Our TableLink(R) system employs:

- . special casino chips that are embedded with computer microchips which transmit encrypted radio frequency signals;
- . sensors at each player position at the table;
- . player identification card readers;
- . optical readers that read playing cards as they are dealt for card game applications and
- . touch-screen computer displays at the gaming table or pit stand.

Information is compiled by patented instruments and computer and sensor technology, which electronically track all bets in real-time as the chips are placed, producing a record of each game. In addition to providing player tracking, chip tracking and game tracking, the technology can be used to integrate a progressive jackpot system with other table games to stimulate player excitement and improve revenue production. The TableLink(R) system provides casino operators with real-time accounting of the play of each table game player. Improved accuracy and player-initiated ratings not only are very useful to the casino in identifying and directing complimentary benefits to the customer, but improve customer loyalty. It also redirects supervisor time from administrative to customer-relationship tasks.

The TableLink(R) system brings to table games the benefits of accurate and automated data collection and player tracking, previously seen only in the slot machine sector. Players initiate their ratings using their player cards when they begin play. The TableLink(R) system tracks the time played, wagers made and game results. The information can be interfaced with the casino's main database and used for rewarding patrons as well as building marketing information. TableLink(R) is available in three tiers: PT

(Player Tracking), CT (Chip Tracking) and GT (Game Tracking). TableLink(R) PT is the base product upon which the CT and GT product offerings are built.

We believe TableLink(R) has the potential to become one of the most important technological advances in casino gaming since the introduction of microprocessors in slot machines.

In April 1998, we signed a master development and purchase agreement with Harrah's Operating Company, Inc. to complete the development of the TableLink(R) system and install the product in Harrah's casinos. Harrah's conducted a limited test of TableLink(R) PT at its Tunica Mississippi casino but has not yet ordered the TableLink(R) system for any additional properties.

In June 1999, we licensed TableLink(R) to the Mandalay Resort Group for use in their MotorCity Casino in Detroit, MI, on all of its tables. TableLink(R) has been in continuous operation since December 1999, where it is used to provide accurate marketing information about table game players. TableLink(R) also serves to differentiate MotorCity from its nearby competitors by allowing customers to initiate their own rating sessions directly at the table by inserting their patron cards into the card readers in the rail.

We are currently focused on establishing additional customers for TableLink(R) PT and CT. If we are successful in adding more casinos to our TableLink(R) customer base, we believe we will be able to demonstrate the competitive advantage the system provides in the casino pit, and that broad market acceptance will follow.

Oversized Slot Machines. We hold an exclusive license from International Game Technology to manufacture and distribute oversized and giant slot machines known as Mini-Bertha(TM) and Colossus(TM), respectively. These oversized and giant slot machines come in electronic video and slot-reel formats, feature many of International Game Technology's popular games and can be linked within a casino on a progressive network. Because of their size they provide greater visual appeal and variety, and management believes that they generate greater win per machine for the casino than conventional slot machines. The machines are available for sale, lease or license; International Game Technology receives a license fee based upon the income derived from the machines that are placed. Lease income from these machines is reported in our gaming operations segment, while income from sales is reported in our product sales segment. The revenues relating to these machines as reported in our financial statements are net of license fees paid to International Game Technology.

Competition

The markets for our products are highly competitive. We compete with a number of developers, manufacturers and distributors of products similar to those that we produce and distribute. Some of these competitors are larger and have greater access to capital resources than we do. Our future performance may be affected by numerous factors, including:

- . the continued popularity of our existing products and our ability to develop and introduce new products that gain market acceptance and satisfy consumer preferences;
- . our ability to maintain existing regulatory approvals and obtain future approvals in order to conduct our business and
- . our ability to enforce our existing intellectual property rights and to adequately secure and enforce such rights for new products.

Many of our products require regulatory approval. We believe that the amount of time and money consumed in the course of obtaining licenses in new jurisdictions and new product approvals in multiple jurisdictions constitute significant obstacles to entry or expansion by new competitors. In addition to regulatory constraints, our intellectual property rights to patents and trademarks help protect our products. We actively seek patent and trademark protection and vigorously enforce our intellectual property rights.

Gaming Operations Competition

Slot Operations. The success of many of the recent video-based games and the popularity of many of the themed game introductions are dictating the types of games being developed. The current competitive environment is placing increasing demands on equipment makers, requiring a strong pipeline of new games and the ability to secure rights to popular brand names and other entertainment-oriented content suitable for adaptation for casino games. Future growth opportunities in the gaming equipment industry will result not only from a strong pipeline of well-defined branded games, but also from new product developments and technological advancements.

Our proprietary slot games business segment faces two types of competition, direct and indirect. Manufacturers that sell standard slot machines to casino operators indirectly compete with us for casino floor space and market share. Our major indirect competitors are Alliance Gaming, Aristocrat, Atronic, International Game Technology, Sigma Game, Konami Gaming Corp. and WMS Industries.

Manufacturers that offer proprietary games to casino operators on a lease or participation basis compete directly with us. Direct competitors typically offer specialty, niche or novelty games. In some cases they offer casino customers the right to purchase specialty games at premium prices or at a lower price with ongoing license fees. Our direct competitors in this proprietary lease or participation market are AC Coin & Slot Company, Alliance Gaming, Aristocrat, International Game Technology, Shuffle Master and WMS Industries.

Table Games. In the proprietary table game market, we are a leading designer, manufacturer and distributor of progressive jackpot table games, and we believe our patents significantly limit the ability of competitors to offer table games with progressive or electronically enhanced side-bet features. The only significant competitors in proprietary table games are Shuffle Master, which markets the Let It Ride(TM) and Three Card Poker(TM) games and BET Technology, Inc., which markets Fortune Pai Gow Poker and Royal Match Blackjack. Our patented side-bet progressive jackpot feature, which was developed for Caribbean Stud(R), has been successfully adapted for Progressive Jackpot Pai Gow Poker, Caribbean Draw Poker(R) and Progressive Blackjack(TM), and is adaptable for other games. Through its deployment, we can convert industry-standard table games which are in the public domain to proprietary games capable of producing for us a recurring revenue stream. We believe that this proprietary feature provides us with a competitive advantage by facilitating our ability to introduce new table games.

Product Sales Competition

Signs. We believe that we are the leading worldwide manufacturer of interior casino signs and the dominant competitor in this specialized market. We are recognized as the industry leader in technology integration, artistic concepts, library of designs, design staff, distribution network and structural design, all of which are essential to the production of the complex thematic signage found in new mega-casinos. These factors, in the aggregate, create significant obstacles to entry by new competitors. Competitors in the interior sign business include AC Coin & Slot Company, Aristocrat, BDSigns, DID Signs, Egads and Young Electric Sign Company.

Other Gaming Products. In the electronics, bonusing and control systems market, we believe that our components for progressive jackpot systems have the highest market share and name recognition in the industry. The primary competitors for our progressive jackpot system components are Aristocrat, Paltronics and Acres Gaming. On March 27, 2001, we received an adverse decision in the patent infringement action brought against us by Acres Gaming alleging that our MoneyTime(TM) game infringed four patents issued to Acres Gaming. The jury returned a verdict against the Company finding two of the four patents infringed and awarded damages of \$1.5 million to Acres Gaming. In the fourth quarter of 2001 we settled this case by agreeing to pay the \$1.5 million damage award and receiving a license to use the Acres patents in return for payment of an ongoing royalty. See "Business--Legal Proceedings."

We may in the future face additional competition from other component manufacturers. For example, International Game Technology currently uses the controllers and software it manufactures solely in

connection with its own proprietary slot machines. However, International Game Technology may in the future commence sales of these components to other slot machine manufacturers and casino operators. In the placement of progressive jackpot bonusing systems, we compete with Acres Gaming and the major slot machine manufacturers who have developed their own proprietary gaming products that incorporate progressive jackpot bonusing systems into their games.

Our CasinoLink(R) system competes against systems from Acres Gaming, Alliance Gaming, Monaco Information Systems Group, Aristocrat, and International Game Technology. This market is highly competitive. Pricing, product features and functions, accuracy and reliability are key factors in determining a provider's success in selling its system. Because of the high initial costs of installing a computerized monitoring system, customers for such systems generally do not change suppliers once they have installed such a system. Mikohn has been successful primarily in foreign jurisdictions and has been the dominant supplier to customers who desire to monitor geographically dispersed casinos from a centralized control facility.

TableLink(R) systems automatically capture and record exact wagering information in real-time. This information includes the exact amount wagered, a critical element that gaming operators traditionally have had great difficulty in ascertaining and confirming. Prior to the introduction of the TableLink(R) technology, casinos could only estimate amounts wagered. We hold worldwide rights to this system. Patents protecting the system and several of its unique features have been issued to us in the United States, as well as in several foreign jurisdictions. We believe that such patents serve as a significant barrier to entry for potential competitors. Our entry level TableLink(R) PT version competes with products marketed by International Game Technology, Inc, Endx Limited and Table Trac, Inc.

Manufacturing

Our several production facilities are primarily manufacturing, assembly and subassembly operations. Most manufacturing relates to the interior sign business, but we also assemble exterior signs, electronic displays and controllers and proprietary games. We routinely contract with outside vendors for assembly services to keep idle production capacity to a minimum and maintain a constant level of employment. A computerized material requirements planning system is used to schedule production and to ensure that inventory levels are adequate to meet customer demand.

The table below lists our manufacturing, administrative, engineering, sales and service facilities as of December 31, 2001.

Location/Activity	Area (Sq. Ft.)	Owned/ Leased
Las Vegas, NV - Corporate Administration	86,515	Leased
Las Vegas, NV - Interior Visual Displays--Manufacturing	47,350	Owned
Las Vegas, NV - Exterior Signs--Manufacturing	45,976	Leased
Las Vegas, NV - Games and Electronics--Manufacturing	85,638	Leased
Las Vegas, NV - Slot Glass	17,225	Leased
Reno, NV - Administration, Service and Sales	8,575	Leased
Mokena, IL- Service	4,200	Leased
Gulfport, MS - Manufacturing, Service and Sales	28,000	Leased
Robinsonville, MS - Service	1,800	Leased
Kansas City, MO - Service	3,600	Leased
Hurricane, UT - Manufacturing	79,230	Leased
Lake Charles, LA - Service and Sales	5,100	Leased
Ft. Lauderdale, FL - Service and Sales	6,000	Leased
Golden, CO - Service	1,500	Leased
Egg Harbor, NJ - Service and Sales	2,800	Leased
Pleasantville, NJ - Manufacturing and Service	7,000	Leased
Alexandria, Australia - Manufacturing, Sales and Service	25,349	Leased
Utrecht, The Netherlands - Manufacturing, Service and Sales	21,422	Leased
	477,280	
	=====	

Nearly all of the components and raw materials we use in our products are available from many sources. Many suppliers can assemble our progressive jackpot products. Accordingly, we are not dependent in any significant way upon any single supplier or vendor for components, raw materials or assembly. However, we are dependent on Sigma Game for the manufacture of the game platform we use to build our Yahtzee(R), Battleship(R), Ripley's Believe It or Not!(R), Clue(R) and Trivial Pursuit(R) slot machines. To reduce our dependence on Sigma Game, we are working with Sierra Design Group, which has a license to develop software used in International Game Technology's slot machines, to obtain the necessary regulatory approvals so that Sierra Design Group can become an alternative supplier of our slot machine platform. We also have entered into a license agreement with Shuffle Master that will enable us to develop games on its platform. Additionally, in late March 2002, we signed an agreement with Sigma Game which will allow the Company to develop games on the Sigma platform.

Marketing and Distribution

We maintain facilities to sell and service our products to markets throughout the world. In addition to our headquarters and other facilities in Las Vegas, NV, we have regional sales offices in Reno, NV; Ft. Lauderdale, FL; Egg Harbor, NJ; Golden, CO; Gulfport, MS and Utrecht, The Netherlands. In Australia, we sell our products and services through Mikohn Australasia Pty. Ltd., which is 92.6% owned by us. In September 2001, we sold 50% of our interest in Mikohn Latin America S.A. to RLP Holdings, reducing our stake in the company to 49.985%. Mikohn Latin America S.A. sells and services our products throughout Latin America and the Caribbean and has manufacturing facilities in Lima, Peru. In the first quarter of 2002 we closed our Argentina facility due to severe economic conditions in Argentina and in the fourth quarter of 2001 we recorded a \$287,000 reserve for our share of assets located in Argentina.

Historically, our marketing efforts have been domestically focused, as measured by the percentage of sales to customers in the United States. However, since 1994 we have broadened our distribution capabilities to better serve international markets, take advantage of growth opportunities and reduce our

dependence on domestic casino operators and slot machine manufacturers. We expect to continue this strategy as more international jurisdictions legalize gaming.

We and our distributors service our progressive jackpot products. We, a subcontractor or the customer typically services our interior visual displays. We perform maintenance on exterior lighting and signs, typically under multi-year contracts, and provide limited warranties on most of our products.

Research and Development

During the years ended December 31, 2001, 2000, and 1999, we expended approximately \$4.2 million, \$5.2 million, and \$6.0 million respectively, on research and development activities.

As previously noted, the casino gaming industry is intensely competitive, causing casinos to constantly seek out, evaluate and introduce new and upgraded gaming products in an effort to attract and retain gaming customers. An important part of our strategy is to provide our casino customers with new and upgraded products, games and services that enhance their revenue stream and facilitate operating efficiencies. Our current emphasis in research and development is on the development of new slot games and table games (including refresher versions of our existing slot games).

Employees

As of March 8, 2002, we had 655 employees worldwide, excluding the South American operation, of whom approximately 257 were in manufacturing, 67 in sales and distribution, 37 in art/CAD design, 141 in installation and service, 38 in research and development and 115 in administration. Of that total, 81 were in management. A total of 65 of our employees, all of whom are employed in our exterior signs operations in Las Vegas, NV and Atlantic City, NJ, are represented by unions. We believe that we enjoy good relations with our employees.

Backlog

As of December 31, 2001, 2000, and 1999, we had backlogs of orders, believed to be firm, of \$21.6 million, \$21.5 million, and \$16.8 million, respectively. Orders in the backlog at December 31st typically are filled within 120 days.

Government Regulation

Overview

We are subject to regulation by governmental authorities in most jurisdictions in which our products are sold or used by persons or entities licensed to conduct gaming activities. Gaming regulatory requirements vary from jurisdiction to jurisdiction, and obtaining licenses, findings of suitability, registrations and/or other required approvals with respect to us, our personnel and our products is time-consuming and expensive. References in this "Government Regulation" section to "Mikohn," "we," "us" and "our" are to Mikohn Gaming Corporation only, and not to its subsidiaries.

Generally, gaming regulatory authorities have broad discretionary powers and may deny applications for or revoke approvals on any basis they deem reasonable. Although our experience is excellent, we may be unable to obtain or maintain necessary gaming regulatory approvals for us, our products or our personnel.

We, either directly or through our subsidiaries, have approvals that enable us to conduct our business in numerous jurisdictions, subject in each case to the conditions of the particular approvals. These

conditions may include limitations as to the type of game or product we may sell or lease, as well as limitations on the type of facility (such as riverboats) and the territory within which we may operate (such as tribal nations). Jurisdictions in which we (together with our subsidiaries, and specific personnel where required) have authorizations with respect to some or all of our products and activities include Nevada, South Dakota, Mississippi, Iowa, Missouri, Oregon, Louisiana, Colorado, Illinois, Washington, Arizona, Connecticut, Montana, New Jersey, North Carolina, North Dakota, New Mexico, Kansas, Minnesota, Indiana, Michigan, New York, Wisconsin, California; the Canadian provinces of Alberta, Manitoba, Nova Scotia, Quebec, Saskatchewan, British Columbia and Ontario; the Australian provinces of New South Wales, Victoria, Queensland, Northern Territory, Western Australia, Australia Capital Territories and Tasmania; New Zealand; Mpumalanga and Gauteng in South Africa; and Greece.

We have a provisional license in Puerto Rico, which permits us to transact our business pending completion of the license application process.

Certain Indian tribes throughout the United States that have compacts with the states in which their tribal dominions are located, operate or propose to operate casinos, and these tribes may require suppliers of gaming and gaming-related equipment to obtain authorizations. We have worked and will continue to work with these tribes to obtain the necessary authorizations.

Gaming Devices and Equipment

We sell or lease products which are considered to be "gaming devices" and/or "gaming equipment" in jurisdictions in which gaming has been legalized. Although regulations vary among jurisdictions, each jurisdiction requires various licenses, findings of suitability, registrations, approvals or permits to be held by companies and their key personnel in connection with the manufacture and distribution of gaming devices and equipment.

Associated Equipment

Some of our products fall within the general classification of "associated equipment." "Associated equipment" is equipment that is not classified as a "gaming device," but which has an integral relationship to the conduct of licensed gaming. Regulatory authorities in some jurisdictions have discretion to require manufacturers and distributors to meet licensing or suitability requirements prior to or concurrently with the use of associated equipment. In other jurisdictions, associated equipment must be approved by the regulatory authorities in advance of its use at licensed locations. We have obtained approval of our associated equipment in each jurisdiction that requires such approval and in which our products that are classified as associated equipment are sold or used.

Regulation of Stockholders

In most jurisdictions, any beneficial owner of our voting securities or other securities may, at the discretion of the gaming regulatory authorities, be required to file an application for a license, finding of suitability or other approval, and in the process subject himself or herself to an investigation by those authorities. The gaming laws and regulations of substantially all jurisdictions require beneficial owners of more than 5% of our outstanding voting securities to file certain reports, and may require our directors and executive officers to undergo investigation for licensing and/or findings of suitability.

Regulation and Licensing--Nevada

Gaming

The manufacture, sale and distribution of gaming devices for use or play in Nevada or for distribution outside of Nevada, the manufacturing and distribution of associated equipment for use in Nevada, and the operation of slot machine routes and inter-casino linked systems in Nevada are subject to (i) the Nevada Gaming Control Act and the regulations promulgated thereunder (collectively, "Nevada Act") and (ii) various local ordinances and regulations. These activities are subject to the licensing and regulatory

control of the Nevada Gaming Commission ("Nevada Commission"), the Nevada State Gaming Control Board ("Nevada Board"), and various local, city and county regulatory agencies (collectively referred to as the "Nevada Gaming Authorities").

The laws, regulations and supervisory practices of the Nevada Gaming Authorities are based upon declarations of public policy with the following objectives:

- . preventing any involvement, direct or indirect, of any unsavory or unsuitable persons in gaming or the manufacture or distribution of gaming devices at any time or in any capacity;
- . strictly regulating all persons, locations, practices and activities related to the operation of licensed gaming establishments and the manufacturing or distribution of gaming devices and equipment;
- . establishing and maintaining responsible accounting practices and procedures;
- . maintaining effective controls over the financial practices of licensees (including requirements covering minimum procedures for internal fiscal controls and safeguarding assets and revenues, reliable recordkeeping and periodic reports to be filed with the Nevada Gaming Authorities);
- . preventing cheating and fraudulent practices and
- . providing and monitoring sources of state and local revenue based on taxation and licensing fees.

Changes in such laws, regulations and procedures, depending upon their nature, could have an adverse effect on our operations.

We are registered by the Nevada Commission as a publicly traded corporation (a "Registered Corporation") and have been found to be suitable to own the stock of Mikohn Nevada which is licensed as a manufacturer and distributor of gaming devices, and as an operator of a slot machine route. The Company and Mikohn Nevada have obtained from the Nevada Gaming Authorities the various authorizations they require to engage in Nevada in manufacturing, distribution, slot route operations and inter-casino linked system activities consisting of slot machines. The regulatory requirements set forth below apply to us as a Registered Corporation and to Mikohn Nevada as a manufacturer, distributor and operator of a slot machine route.

All gaming devices that are manufactured, sold or distributed for use or play in Nevada, or for distribution outside of Nevada, must be manufactured by licensed manufacturers and distributed and sold by licensed distributors. All gaming devices manufactured for use or play in Nevada must be approved by the Nevada Commission before distribution or exposure for play. The approval process for gaming devices includes rigorous testing by the Nevada Board, a field trial and a determination that the gaming device meets strict technical standards set forth in the regulations of the Nevada Commission. Associated equipment must be administratively approved by the Chairman of the Nevada Board before it is distributed for use in Nevada.

As a Registered Corporation, we are periodically required to submit detailed financial and operating reports to the Nevada Commission and furnish any other information the Nevada Commission may require. No person may become a stockholder of or receive any percentage of profits from Mikohn Nevada without first obtaining authorizations from the Nevada Gaming Authorities.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, us or Mikohn Nevada in order to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors and certain key employees of Mikohn Nevada are required to file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Our officers, directors and key employees who are actively and directly involved in gaming activities of Mikohn Nevada may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause that they deem reasonable. A finding of suitability is comparable to licensing. Both require submission of detailed personal and financial information, which is followed by a thorough investigation. The applicant for licensing or a finding of suitability must pay all the costs of the investigation. Changes in licensed positions must be reported to

the Nevada Gaming Authorities. In addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have the power to disapprove a change in corporate position.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with us or Mikohn Nevada, we would have to sever all relationships with that person. In addition, the Nevada Commission may require us or Mikohn Nevada to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada.

Mikohn and Mikohn Nevada are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by Mikohn Nevada also are required to be reported to or approved by the Nevada Commission.

Should Mikohn Nevada be found to have violated the Nevada Act, the licenses it holds could be limited, conditioned, suspended or revoked. In addition, Mikohn Nevada, Mikohn and the persons involved could be required to pay substantial fines, at the discretion of the Nevada Commission, for each separate violation of the Nevada Act. Limitation, conditioning or suspension of any license held by Mikohn Nevada could (and revocation of any license would) materially adversely affect our manufacturing, distribution and slot operations.

Regulation of Security Holders

Any beneficial holder of our voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have his or her suitability as a beneficial holder of our voting securities determined if the Nevada Commission finds reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires beneficial ownership of more than 5% of a Registered Corporation's voting securities to report the acquisition to the Nevada Commission. It also requires beneficial owners of more than 10% of a Registered Corporation's voting securities to apply to the Nevada Commission for a finding of suitability within thirty days after the Chairman of the Nevada Board mails a written notice requiring such filing. Under certain circumstances, an "institutional investor," as defined in the Nevada Act, which acquires more than 10%, but not more than 15%, of the Registered Corporation's voting securities may apply to the Nevada Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes only.

An institutional investor is deemed to hold voting securities for investment purposes if the voting securities were acquired and are held in the ordinary course of its business as an institutional investor and were not acquired and are not held for the purpose of causing, directly or indirectly: (i) the election of a majority of the members of the board of directors of the Registered Corporation; (ii) any change in the Registered Corporation's corporate charter, bylaws, management, policies or operations or those of any of its gaming affiliates or (iii) any other action that the Nevada Commission finds to be inconsistent with holding the Registered Corporation's voting securities for investment purposes only. Activities which are not deemed to be inconsistent with holding voting securities for investment purposes only include: (i) voting on all matters voted on by stockholders; (ii) making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in management, policies or operations and (iii) other activities the Nevada Commission may determine to be consistent with investment intent. If the beneficial holder of voting securities who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board, may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder of a Registered Corporation found unsuitable and who holds, directly or indirectly, any beneficial ownership in the voting securities beyond such period of time as the Nevada Commission may specify for filing any required application may be guilty of a criminal offense. Moreover, the Registered Corporation will be subject to disciplinary action if, after it receives notice that a person is unsuitable to be a stockholder or to have any other relationship with the Registered Corporation, it: (i) pays that person any dividend on its voting securities; (ii) allows that person to exercise, directly or indirectly, any voting right conferred through securities ownership; (iii) pays remuneration in any form to that person for services rendered or otherwise or (iv) fails to pursue all lawful efforts (including, if necessary, the immediate purchase of said voting securities for cash at fair market value) to require such unsuitable person to completely divest all voting securities held.

The Nevada Commission may, in its discretion, require the holder of any debt security of a Registered Corporation to file applications, be investigated and be found suitable to own the debt security of a Registered Corporation if the Nevada Commission finds reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. If the Nevada Commission determines that a person is unsuitable to own such security, it may sanction the Registered Corporation, which sanctions may include the loss of its approvals if, without the prior approval of the Nevada Commission: it (i) pays to the unsuitable person any dividend, interest, or other distribution; (ii) recognizes any voting right of such unsuitable person in connection with such securities; (iii) pays the unsuitable person remuneration in any form or (iv) makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

The pledge of the stock of Mikohn Nevada (the "Stock Pledge") and of the stock of any future subsidiary that obtains a gaming license (a "Future Subsidiary"), and the restriction on the transfer of and agreement not to encumber the equity securities of Mikohn Nevada or any Future Subsidiary (collectively, the "Stock Restrictions") in respect of the notes was approved by the Nevada Commission on March 21, 2002. No assurances can be given that such approvals in the future will be granted or granted on a timely basis. An approval of the Stock Pledge by the Nevada Commission does not constitute approval to foreclose on the Stock Pledge. Separate approval would be required to foreclose on the Stock Pledge and transfer ownership of the stock and such approval would require the licensing of the indenture trustee or other secured party (the "Secured Party"), unless such licensing is waived upon application of the Secured Party. No assurances can be given that approval to foreclose on the Stock Pledge would be granted, or that the Secured Party would be licensed or would receive a waiver of licensing requirements. Foreclosure of the lien on collateral consisting of gaming devices in respect of the notes and the taking possession of such gaming devices may require the prior licensing of the Secured Party as a distributor by the Nevada Commission. However, the Nevada Act provides that in the case of foreclosure of a lien by a person holding any security interest for which gaming devices are security in whole or part, the Nevada Board may authorize the disposition of such gaming devices without requiring a distributor's license. No assurances can be given that the Nevada Board would grant such approval or that if such approval were not granted, that the Secured Party would be granted a license as a distributor.

The Company and Mikohn Nevada are required to maintain in Nevada, a current stock ledger that may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record owner may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record owner unsuitable.

We also are required to render maximum assistance in determining the identity of the beneficial owners of our securities. The Nevada Commission has the power to require us to imprint our stock certificates with a legend stating that the securities are subject to the Nevada Act. To date, the Nevada Commission has not imposed such requirement on us.

We may not make a public offering of our securities without the prior approval of the Nevada Commission if the securities or proceeds therefrom are to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for such purposes. On March 23, 2000, the Nevada Commission granted us prior approval to make public offerings for a period of two years, subject to certain conditions (the "Shelf Approval"). However the Shelf Approval may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada Board and must be renewed at the end of the one-year period. The Shelf Approval also applies to any affiliated company wholly owned by us (an "Affiliate") which is, or would thereby become, a publicly traded corporation pursuant to a public offering. The Shelf Approval also includes approval for Mikohn Nevada to guarantee any security issued by, or to hypothecate their assets to secure the payment or performance of any obligations evidenced by a security issued by, us or an Affiliate in a public offering under the Shelf Approval. The Shelf Approval also includes approval for Stock Restrictions in respect of Mikohn Nevada in relation to public offerings of securities. The Shelf Approval does not constitute a finding, recommendation or approval by the Nevada Commission or the Nevada Board as to the accuracy or adequacy of the prospectus or the investment merit of the offered securities, and any representation to the contrary is unlawful. The issuance of the exchange notes and the Stock Restrictions in respect thereof, and the registration and issuance of common stock in respect of the warrants will be covered by the Shelf Approval. The Stock Restrictions in respect of the notes, and the Stock Pledge in respect of the notes and the exchange notes will not be covered by the Shelf Approval and separate approval of the Nevada Commission will be required for such Stock Restrictions and Stock Pledge. No assurances can be given that such approvals will be granted or granted on a timely basis.

Changes in control of a Registered Corporation through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct, by which anyone obtains control, may not lawfully occur without the prior approval of the Nevada Commission. Entities seeking to acquire control of a Registered Corporation must meet the strict standards established by the Nevada Board and the Nevada Commission prior to assuming control of a Registered Corporation. The Nevada Commission also may require persons who intend to become controlling stockholders, officers or directors, and other persons who expect to have a material relationship or involvement with the acquired company, to be investigated and licensed as part of the approval process.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada corporate gaming licensees, and Registered Corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Commission has established a regulatory scheme to minimize the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to: (i) assure the financial stability of corporate gaming licensees and their affiliates; (ii) preserve the beneficial aspects of conducting business in the corporate form and (iii) promote a neutral environment for the orderly governance of corporate affairs. Approvals are, in certain circumstances, required from the Nevada Commission before the Registered Corporation can make exceptional repurchases of voting securities above market price and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by the Registered Corporation's board of directors in response to a tender offer made directly to the Registered Corporation's stockholders for the purpose of acquiring control of the Registered Corporation.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, must be paid to the State of Nevada and to the counties and cities in which gaming operations are conducted. These fees and taxes, depending upon their nature, are payable monthly, quarterly or annually and are based upon either a percentage of the gross revenues received or the number of gaming devices operated. Annual fees are also payable to the State of Nevada for renewal of licenses as an operator of a slot machine route, manufacturer and/or distributor.

Any person who is licensed, required to be licensed, registered, required to be registered, or who is under common control with any such persons (collectively, "Licensees") and who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada Board, and

thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation by the Nevada Board of his or her participation outside of Nevada. The revolving fund is subject to increase or decrease at the discretion of the Nevada Commission. Thereafter, Licensees are required to comply with certain reporting requirements imposed by the Nevada Act. Licensees also are subject to disciplinary action by the Nevada Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the non-Nevada gaming operations, fail to conduct the foreign gaming operations in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in activities or enter into associations that are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employ, contract with or associate with a person in the non-Nevada operations who has been denied a license or finding of suitability in Nevada on the ground of unsuitability.

Other Jurisdictions

All other jurisdictions that have legalized gaming require various licenses, registrations, findings of suitability, permits and approvals for manufacturers and distributors of gaming devices and equipment. In general, such requirements involve restrictions similar to those of Nevada.

Federal Regulation

The Federal Gambling Devices Act of 1962 (the "Federal Act") makes it unlawful, in general, for a person to manufacture, deliver, or receive gaming machines, gaming machine type devices, and components across state lines or to operate gaming machines unless that person has first registered with the Attorney General of the United States. We have registered and must renew our registration annually. In addition, various recordkeeping and equipment identification requirements are imposed by the Federal Act. Violation of the Federal Act may result in seizure and forfeiture of the equipment, as well as other penalties.

Application of Future or Additional Regulatory Requirements

In the future, we intend to seek the necessary registrations, licenses, approvals and findings of suitability for us, our products and our personnel in other jurisdictions throughout the world where significant sales of our products are expected to be made. However, we may be unable to obtain these registrations, licenses, approvals or findings of suitability, which if obtained may be revoked, suspended or unsuitably conditioned. In addition, we may be unable to timely obtain, or to obtain at all, the necessary approvals for our future products as they are developed, even in those jurisdictions in which we or certain of our existing products have been licensed or approved. If a registration, license, approval or finding of suitability is required by a regulatory authority and we fail to seek or do not receive the necessary registration, license, approval or finding of suitability, we may be prohibited from selling our products for use in that jurisdiction or may be required to sell our products through other licensed entities at a reduced profit.

Item 2. Properties

The properties we own and lease as of December 31, 2001 are listed in detail in the table under "Business--Manufacturing" above. In Nevada, we lease six. These leases expire over various periods through the end of 2017. We own the Las Vegas, NV interior sign manufacturing facility and lease all other facilities.

We lease sales, service and/or support offices and other facilities in Colorado, Mississippi, Missouri, New Jersey and Utah. These leases expire on various dates through 2015.

Item 3. Legal Proceedings

We are involved in routine litigation, including bankruptcies of debtors, collection efforts, disputes with former employees and other matters in the ordinary course of our business operations. We know of no matter, pending or threatened, including the matters discussed below, that will or might have a material adverse impact on our business or operations.

We were a plaintiff in a suit entitled Mikohn Gaming Corporation v. Acres Gaming, Inc., Case No. CV-S-97-1383-EJW, brought in the United States District Court for the District of Nevada. This action was filed October 2, 1997 seeking, among other things, a declaratory judgment that our MoneyTime(TM) game did not infringe a patent issued to Acres Gaming in August 1997. Subsequent to the filing of this action, three additional patents were issued to Acres Gaming. As each patent was issued, Acres Gaming brought a separate suit against Mikohn for patent infringement. All three suits were ultimately consolidated with the first action. The consolidated action went to trial before a jury on March 14, 2001. On March 27, 2001, the jury returned a verdict finding that we infringed two of the four patents and awarded Acres Gaming damages of \$1.5 million. We initially appealed the verdict to the Federal Circuit Court of Appeals but in December 2001 reached a settlement resulting in a dismissal of that appeal, the payment of \$1.5 million to Acres and the execution of a license agreement allowing our use of the Acres' patents going forward.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Stock and Related Security Holder Matters

Our common stock trades on the NASDAQ National Market System under the symbol "MIKN". The following table sets forth the range of high and low sales prices per share by quarter for our common stock.

	High ----	Low ---
2001 ----		
First Quarter	\$4.938	\$2.750
Second Quarter	8.250	3.500
Third Quarter	8.500	3.145
Fourth Quarter	8.850	3.901
2000 ----		
First Quarter	\$8.500	\$4.750
Second Quarter	7.938	5.375
Third Quarter	9.125	6.125
Fourth Quarter	6.938	2.688

We believe there were approximately 2,500 beneficial owners of our common stock as of March 20, 2002. The approximate number of beneficial owners as of that date was reached by estimating the number of holders whose stock is held for them in street name by brokerage houses, by trusts and other nominees and by participants in a clearing agency. On March 20, 2002, we had 271 holders of record of our common stock.

We have never paid dividends nor do we have any plans to pay dividends in the future. At present we intend to retain all future earnings for use in the development of our business. The \$105.0 million Senior Secured Notes dated August 22, 2001 due 2008, expressly prohibits the payment of cash dividends except under certain circumstances.

Item 6. Selected Financial Data

The table below sets forth a summary of selected financial data for Mikohn for the five years ended December 31/st/ (in thousands except for per share amounts):

	2001	2000	1999	1998	1997
	-----	-----	-----	-----	-----
Statement of Operations Data:					
Net sales	\$111,057	\$100,766	\$106,884	\$ 99,032	\$98,548
Cost of sales	52,427	54,664	54,846	60,163	61,200
	-----	-----	-----	-----	-----
Gross profit	58,630	46,102	52,038	38,869	37,348
Selling, general and administrative expenses	52,191	47,781	41,966	38,982	31,073
Impairment loss	1,702				
Write-off of assets and other	1,201	9,852	1,352	4,493	
	-----	-----	-----	-----	-----
Operating income (loss)	3,536	(11,531)	8,720	(4,606)	6,275
Interest expense	(11,729)	(10,516)	(8,850)	(5,115)	(2,555)
Other income and (expense)	1,628	(58)	720	112	11
	-----	-----	-----	-----	-----
Income (loss) before income taxes	(6,565)	(22,105)	590	(9,609)	3,731
Income tax (provision) benefit			342	3,335	(1,357)
	-----	-----	-----	-----	-----
Income (loss) before extraordinary item	(6,565)	(22,105)	932	(6,274)	2,374
Extraordinary loss (net of taxes)	(3,135)			(1,752)	
	-----	-----	-----	-----	-----
Net income (loss)	\$ (9,700)	\$(22,105)	\$ 932	\$ (8,026)	\$ 2,374
	=====	=====	=====	=====	=====
Weighted average common shares outstanding:					
Basic	11,750	10,968	10,720	10,527	9,952
	=====	=====	=====	=====	=====
Diluted	11,750	10,968	10,784	10,527	10,057
	=====	=====	=====	=====	=====
Basic and diluted income (loss) per share:					
Income (loss) before extraordinary item	\$ (0.56)	\$ (2.02)	\$ 0.09	\$ (0.60)	\$ 0.24
Extraordinary item	(0.27)			(0.16)	
	-----	-----	-----	-----	-----
Net income (loss)	\$ (0.83)	\$ (2.02)	\$ 0.09	\$ (0.76)	\$ 0.24
	=====	=====	=====	=====	=====
Balance Sheet Data:					
Total assets	\$175,587	\$166,746	\$178,295	\$167,841	\$97,588
	=====	=====	=====	=====	=====
Total debt / obligations	\$124,982	\$113,488	\$108,221	\$101,612	\$30,226
	=====	=====	=====	=====	=====
Stockholders' equity	\$ 28,654	\$ 29,205	\$ 48,116	\$ 46,727	\$52,570
	=====	=====	=====	=====	=====

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

All amounts (including dollar amounts and number of shares) reported in this section (from this point forward) are expressed in thousands and are rounded to the nearest thousand unless otherwise stated. However, numbers of units are expressed in whole amounts. All percentages reported are based on those rounded numbers. See Note 19 - Segment Reporting in the Notes to Consolidated Financial Statements.

YEAR-END ASSET VALUATION AND CHARGES

Subsequent to the events of September 11, 2001, the impact of which was felt throughout the worldwide economy, and based on the current economic and business environment relative to financial reporting practices, the Company performed a detailed, comprehensive review of its balance sheet relative to the changed economic and business environment conditions. Specifically identified during this review, management analyzed goodwill assets for impairment, slow moving, excess or obsolete inventories, customer debts in light of changing economic conditions and other miscellaneous assets.

This review and analysis resulted in the Company taking various charges in its fourth quarter for (i) impaired assets (principally goodwill and nonoperating fixed assets of approximately \$2,900 included in the "Write off of Assets and Other" and "Impairment Loss" captions), (ii) receivables, including significant amounts owed from debtors who purchased certain patent and internet rights, for which collectibility is now considered doubtful (approximately \$2,800 which is included in the operating income segments below), (iii) inventory reserves, including those related to the energy crisis and the economic decline (approximately \$2,200 included in the operating income segments below), (iv) losses incurred in foreign operations due to the collapse of the Argentina economy and softness in the Australasian market (approximately \$600 included in revenues below) and (v) miscellaneous charges related to medical insurance claims and certain international slot leasing revenues of \$1,000 (included in operating income segments below).

ACQUISITION / DIVESTITURE OF SUBSIDIARIES

In October 2001, the Company completed the sale of 50% of its interest in Mikohn Latin America S.A. Certain officers and management of Mikohn Latin America, through RLP Holdings, purchased a 50% interest for approximately \$400 in cash and a \$100 note. The Company accounts for the financial results of this entity using the equity method since October 2001. Equity in earnings and losses of the unconsolidated subsidiary is now charged to revenues on a monthly basis with a corresponding charge to the Company's investment in subsidiary account. Prior to the 50% divestiture, the financial results of Mikohn Latin America were included in the consolidated results of operations. Through September 30, 2001, Mikohn Latin America accounted for approximately \$2,200 in revenues, \$900 in gross profit, and net income of approximately \$100 and these amounts are included in the financial analysis below. From October to December 2001, approximately \$297 of equity in losses of affiliates is included in product sales revenues below.

On November 15, 2001, the Company converted \$518 of debt owing from Mikohn Gaming Australasia Pty., Ltd ("MGA") into 20,000 shares of MGA, thereby increasing our ownership from 50% to approximately 93%. Previous to this transaction, the Company had accounted for this unconsolidated subsidiary using the equity method whereby the Company would record a 50% share of earnings or losses of this subsidiary. Subsequent to this transaction, the Company now consolidates all accounts of this subsidiary into its consolidated financial statements. From January 1, 2001 to November 15, 2001, approximately \$700 was charged to product sales revenues below for the equity in losses of this unconsolidated subsidiary. For the period November 15, 2001 to December 31, 2001, MGA accounted

for approximately \$1,000 in revenues, \$250 in gross profit and \$400 in net loss. These amounts are included in the financial analysis below.

RELATED PARTY TRANSACTIONS

During 2001, the Company entered into various material transactions with related parties. Specifically, the Company sold approximately \$280 of products to its 50% owned affiliate in Latin America subsequent to the Company's divestiture of 50% of this subsidiary on October 1, 2001. Additionally, the Company charged its Latin American affiliate approximately \$36 in interest expense. The Company also had significant transactions with its Australian affiliate from prior to the Australian affiliate being consolidated with the Company on November 15, 2001. Specifically, the Company charged its Australian affiliate \$172 in interest charges, \$213 in royalty fees relating to electronic sales, charges for table games of \$465, and \$194 in net sales of various products. Approximately \$600 of net costs were charged from the Australian affiliate to the Company for various costs from January 1, 2001 to November 15, 2001. All sales and expense charges to or from affiliates were deemed be arms-length transactions.

RESULTS OF OPERATIONS

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

REVENUES

Business segment:	2001	2000	Change		Comment
			Amount	%	
Gaming operations	\$ 44,074	\$ 34,796	\$ 9,278	26.7%	1
Product sales	66,983	65,970	1,013	1.5%	2
	-----	-----	-----		
Total revenues	\$111,057	\$100,766	\$10,291	10.2%	
	=====	=====	=====		
Percentage of total revenues:					
Gaming operations	39.7%	34.5%			
Product sales	60.3%	65.5%			
	-----	-----			
Total	100.0%	100.0%			
	=====	=====			

- Gaming operations revenues in 2001 were \$44,074, a \$9,278 increase from \$34,796 in 2000. This 26.7% increase resulted from (i) an increase in recurring revenues from leased slot machines of approximately \$12,700 in the 2001 period attributable to the addition of approximately 1,200 average branded units in operation (at December 31, 2001, the Company had approximately 2,700 branded slot machines on lease as compared to approximately 2,000 at December 31, 2000) and (ii) a decrease of approximately \$3,400 in table games revenues reflecting the absence of a nonrecurring sale of certain video and internet license rights of \$2,587 which occurred in 2000 and a slight decrease in the average monthly lease payment on leased table games during 2001.
- Product sales revenues in 2001 were \$66,983 as compared to \$65,970 in 2000, an increase of \$1,013, or 1.5%. This marginal increase during 2001 was due principally to (i) an increase of approximately \$5,000 in electronic display products and (ii) an increase in international revenues of approximately \$1,500 offset, in part, by declines in interior and exterior visual display products of approximately \$5,000 and in systems revenues of approximately \$600.

OPERATING INCOME

Business segment:	2001	2000	Change		Comment
			Amount	%	
Gaming operations	\$ 15,738	\$ 14,651	\$ 1,087	7.4%	1
Product sales	3,561	(2,404)	5,965	-248.1%	2
Total segment operating income	19,299	12,247	7,052	57.6%	
Corporate expenses	(12,860)	(13,926)	1,066	7.7%	3
Impairment losses	(1,702)		(1,702)	-100.0%	4
Write-off of assets and other	(1,201)	(9,852)	8,651	87.8%	5
Total operating income (loss)	\$ 3,536	\$(11,531)	\$15,067	130.7%	
Depreciation and amortization					
(included above):					
Gaming operations	\$ 7,730	\$ 6,346	\$ 1,384	21.8%	6
Product sales	1,419	1,592	(173)	-10.9%	6
Corporate	3,257	3,179	78	2.5%	6
Total depreciation and amortization	\$ 12,406	\$ 11,117	\$ 1,289	11.6%	6

1. Gaming operations operating income in 2001 increased to \$15,738 from \$14,651 in 2000. This increase of \$1,087, or 7.4%, was primarily due to the aforementioned increase of \$9,278 in gaming operations revenues offset, in part, by an increase in bad debt provisions of approximately \$1,400, an increase in depreciation and rent expense of approximately \$4,400 in the 2001 period and the absence of a nonrecurring sale and gross profit of certain video and internet rights, which occurred in 2000, of \$2,587. The increase in bad debt provisions during the 2001 period occurred as a result of a reevaluation of certain significant obligations of customers whose ability to pay has been effected by the slowness in developing internet gaming in various legalized jurisdictions. The increase in rent and depreciation expense during the 2001 period was the result of the significant growth in placements of branded slot machines in the Company's route operation, from an average of approximately 1,300 machines in 2000 to approximately 2,300 in 2001 and, beginning in the latter part of 2000, the use of operating leases to finance the purchase and placement of the machines.
2. Product sales operating income in 2001 increased by \$5,965, from \$(2,404) in 2000 to \$3,561 in 2001. This improvement in operating income resulted from the aforementioned increase in revenues of \$1,013 and an improvement in the gross profit percentage from 27% in 2000 to 33% in 2001. This gross margin improvement of approximately \$4,000 was primarily the result of (i) an approximate \$1,200 margin reduction in 2000 caused by start up costs related to a new LED product, (ii) reduced provisions for inventory obsolescence of approximately \$1,000 in 2001 and (iii) a shift in the product sales mix. In 2001, the Company had a greater percentage of higher margin electronic displays sold versus 2000 and a lower percentage of lower margin interior and exterior sign displays sold. Additionally, product sales operating income in 2000 was adversely affected by the recording of approximately \$3,700 of bad debt provisions as compared to approximately \$1,500 in 2001.
3. Corporate expenses in 2001 decreased by \$1,066 or 7.7% from \$13,926 in 2000 to \$12,860 in 2001. This decrease was due to a decline in marketing expenses due to reduced trade show expenses and promotional costs as well as a decline in administrative incentive compensation.
4. During 2001, the Company recorded an impairment loss of \$1,702 after an analysis of the Company's business operations relating primarily to its domestic exterior sign business and two of its foreign

business operations revealed that the carrying values were in excess of the present net realizable values.

5. During 2001, the Company wrote-off certain non-producing fixed assets of approximately \$759, other assets related to its domestic exterior sign business of approximately \$142 and certain rights associated with the Company's TableLink(TM) products of \$300. This charge to write-off of assets and other of \$1,201 represents a decrease of \$8,651 compared to the write-off of assets and other in 2000 of \$9,852, which related primarily to the write-off of two older slot product lines of \$2,430, surveillance assets of \$720, prepaid royalties of \$3,356 and a charge to operations of \$3,200 from the effects of an adverse decision in a patent lawsuit.
6. Depreciation and amortization in 2001 increased by \$1,289, or 11.6%, from \$11,117 in 2000 to \$12,406 in 2001. This increase was primarily due to a significant increase in the average number of leased slot machines in service from 2000 to 2001 of approximately 1,200 machines.

INTEREST EXPENSE

Interest expense in 2001 was \$11,729 compared to \$10,516 in 2000. This increase of \$1,213, or 11.5%, was due to higher average outstanding borrowings in 2001 of approximately \$7,000, due principally to the Company's refinancing in August, 2001, as well as a slightly higher average effective interest rate in 2001.

OTHER INCOME AND (EXPENSE)

Other income and expense, excluding interest income, in 2001 was net income of \$1,023, an increase of \$1,669 over the \$646 of net expense incurred in 2000. This increase was principally due to the recognition of a net gain of \$1,334 on the sale of a 50% interest in the Company's Australian subsidiary and systems sale.

Interest income in 2001 was \$605 compared to \$588 in 2000. This increase of \$17 was due principally to a significant increase in average cash and cash equivalent balances during the latter part of 2001 resulting from the net cash proceeds of the Company's refinancing in August 2001 offset, in part, by lower interest rates earned on cash deposits in 2001 and a decrease in interest income recorded from interest-bearing notes as certain charges have been deferred in 2001 pending cash receipt.

INCOME TAXES

During 2001 and 2000, the Company did not recognize an income tax benefit on the net loss of \$9,700 and \$22,105, respectively. The Company has net operating loss carryforwards and believes it will recognize the benefits from the loss carryforwards as it earns income on a going-forward basis.

EXTRAORDINARY ITEM

In connection with the Company's August 2001 refinancing and early extinguishment of certain of its outstanding debt obligations (see Liquidity and Capital Resources, below), the Company incurred extraordinary charges for the early extinguishment of debt, totaling \$3,135, during the year ended December 31, 2001.

LOSS PER SHARE

Both basic and diluted loss per share before extraordinary item for 2001 were \$0.56 on basic and diluted weighted average common shares outstanding of 11,750. Both basic and diluted loss per share for 2001 were \$0.83 on basic and diluted weighted average common shares outstanding of 11,750. Both basic and diluted loss per share for 2000 were \$2.02 on basic and diluted weighted average common shares outstanding of 10,968.

RESULTS OF OPERATIONS

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

REVENUES

Business segment: -----	2000 ----	1999 ----	Change -----		Comment -----
			Amount -----	% --	
Gaming operations	\$ 34,796	\$ 25,256	\$ 9,540	37.8%	1
Product sales	65,970	81,628	(15,658)	-19.2%	2
	-----	-----	-----		
Total	\$100,766	\$106,884	\$ (6,118)	-5.7%	
	=====	=====	=====		
Percentage of total revenues:					
Gaming operations	34.5%	23.6%			
Product sales	65.5%	76.4%			
	-----	-----			
Total	100.0%	100.0%			
	=====	=====			

- Gaming operations revenues in 2000 increased by \$9,540 or 37.8% from \$25,256 in 1999 to \$34,796 in 2000, which was due to: (i) an increase in recurring revenues from leased slot machines of \$8,764 attributable to the addition during the year of 1,800 branded units placed in operation and (ii) an increase of \$776 reflecting a 2.8% increase in the number of table games on lease and slightly higher revenues per game. Sales of license rights related to our table game products of \$2,587 in 2000 and \$2,750 in 1999 are included in gaming operations revenues.
- Product sales revenues in 2000 decreased by \$15,658 or 19.2% from \$81,628 in 1999 to \$65,970 in 2000, which was primarily due to: (i) a decrease of \$7,650 representing the 1999 revenues of our former Australian subsidiary which could not be consolidated in 2000 due to the divestiture of a 50% interest at the end of 1999 and our share of the loss experienced by the Australian affiliate in 2000, which amounted to \$215, (ii) a decrease of \$5,183 in systems revenues due to a large system sale in Canada during 1999 that was not matched in 2000 by a comparable sale and (iii) a decrease of \$2,949 in revenues from European operations.

OPERATING INCOME

Business segment:	2000	1999	Change		Comment
			Amount	%	
Gaming operations	\$ 14,651	\$ 11,660	\$ 2,991	25.7%	1
Product sales	(2,404)	10,678	(13,082)	-122.5%	2
Total segment operating income	12,247	22,338	(10,091)	-45.2%	
Write-off of assets and other	(9,852)	(1,352)	(8,500)	628.7%	3
Corporate expenses	(13,926)	(12,266)	(1,660)	13.5%	4
Total operating income (loss)	\$(11,531)	\$ 8,720	\$(20,251)	-232.2%	
Depreciation and Amortization					
(included above):					
Gaming operations	\$ 6,346	\$ 4,832	\$ 1,514	31.3%	5
Product sales	1,592	2,030	(438)	-21.6%	5
Corporate	3,179	2,487	692	27.8%	5
Total depreciation and Amortization	\$ 11,117	\$ 9,349	\$ 1,768	18.9%	5

- Gaming operations operating income in 2000 increased by \$2,991, or 25.7%, from \$11,660 in 1999 to \$14,651 in 2000, which was primarily due to an 111.6% increase in gross profits from leased slot machines attributable to the substantial increase in the installed base, as 1,800 new branded slot machines were placed in service in 2000. Equipment rental expense of \$547 in 2000, related to slot machine operating leases, was included in gaming operations operating expenses. Gaming operations expense for 2000 included \$347 in bad debt expense. Included in gaming operations costs of sales was \$1,553 of inventory writedowns related to an older slot machine product line.
- Product sales operating income in 2000 decreased by \$13,082, or 122.5%, from \$10,678 in 1999 to \$(2,404) in 2000, which was primarily due to the \$15,658 decrease in gaming product revenues, thus the primary reason for a decrease in gaming product gross profit margin of \$11,248. Gross profit margins decreased to 27.0% from 35.6% in 1999. The margin reduction reflects lower margins for the exterior sign business, resulting from a \$1,231 reduction in gross profit due primarily to startup costs related to a new LED product. The Gulfport, Mississippi, interior sign factory also had lower margins prior to the phase-out of that manufacturing facility, which reduced gross profit by \$756. Included in the lower operating profits are the effects of \$3,752 in inventory charges and \$3,687 in reserves for bad debts which we believe are higher than the historical amounts of inventory and bad debt reserves and charges. This increase relates to the strategic repositioning initiative, changing economic conditions and changing customer credit circumstances. A summary of the major cost impacts described above for the product sales segment for 2000 is as follows:

Description -----	Amount -----
Lower exterior sign gross margins due primarily to the LED startup costs	\$1,231
Lower margins in the Gulfport, Mississippi interior sign facility prior to phasing out production	756
Inventory reserves	3,752
Bad debt expenses	3,687

	\$9,426
	=====

3. As a result of our increased focus on our gaming operations and branded slot machines following the review conducted as part of our strategic repositioning initiative, we determined that certain of our older non-branded slot machine games, surveillance assets and prepaid royalties related to a licensing agreement had balance sheet values in excess of their present realizable value. This resulted in charges to revalue assets related to two older slot product lines of \$2,430, surveillance assets of \$720 and prepaid royalties of \$3,356. In addition, we accounted for the effects of an adverse decision in a patent suit on March 27, 2001 resulting in a charge to operations of \$3,200. See Note 9 - Impairment, Write-Off of Assets, and Other and Extraordinary Item in the Notes to Consolidated Financial Statements.
4. Corporate expenses in 2000 increased by \$1,660 or 13.5% from \$12,266 in 1999 to \$13,926 in 2000, which was primarily due to including the costs related to two major trade shows in the current year resulting in an increase of \$546. We also had non-cash charges related to stock options of \$210 and professional services related to the restated financial statements of \$397. Corporate depreciation and amortization also increased \$692. See Note 5 below.
5. Depreciation and amortization in 2000 increased by \$1,768 or 18.9% from \$9,349 in 1999 to \$11,117 in 2000. Gaming operations depreciation and amortization increased by \$1,514 or 31.3% to \$6,346 due to additional slot games that were placed in service. Product sales depreciation and amortization decreased \$438 or 21.6% due to the removal of a leased exterior sign that was being depreciated. Corporate depreciation and amortization increased due to new investments for patents, licenses, software development and related warrants.

INTEREST EXPENSE

Interest expense in 2000 increased by \$1,666 or 18.8% from \$8,850 in 1999 to \$10,516 in 2000. The increase was due to increases in the interest rate on our variable rate loans reflecting changes in the market interest rate as well as an amendment to the Amended and Restated Credit Agreement that resulted in a 0.5% interest rate increase. The average interest rate, which includes amortization of loan costs, on the average amount of all outstanding debt for 2000 was 11.9%, as compared to 9.2% for 1999. See Note 10 - Long-Term Debt in the Notes to Consolidated Financial Statements.

OTHER INCOME AND (EXPENSE)

Other income and expense excluding interest income in 2000 was a net expense increase of \$1,001, from a net other income of \$355 in 1999 to a net other expense of \$646 in 2000. The difference was due primarily to a gain on the sale of real estate in 1999 as well as to various tax and miscellaneous expenses in 2000.

Interest income in 2000 increased by \$223 or 61.1% from \$365 in 1999, to \$588 in 2000. The increase was primarily due to interest received related to a license agreement as well as interest from our non-consolidated Australian affiliate.

INCOME TAXES

In 2000, we did not recognize an income tax benefit on the net loss of \$22,105, as compared to 1999 when we recognized a tax benefit of \$342. We believe we will recognize the tax benefit on this loss as we earn income on a going-forward basis.

EARNINGS (LOSS) PER SHARE

Both basic and diluted loss per share for 2000 were \$2.02 on basic and diluted weighted average common shares outstanding of 10,968. Both basic and diluted earnings per share for 1999 were \$0.09 on basic and diluted weighted average common shares outstanding of 10,720 and 10,784, respectively.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2001, the Company incurred a net loss of \$9,700. Net cash and cash equivalents at December 31, 2001 were \$15,124, an increase of \$14,662 from \$462 at December 31, 2000. This increase was principally due to the receipt of approximate net cash proceeds of \$17,900 from the refinancing of certain notes and the issuance of additional common stock in August 2001 offset by the payment of outstanding notes and obligations to First Source Financial and the payment of debt issue costs. Working capital increased to \$38,462 at December 31, 2001 from \$36,977 at December 31, 2000, an increase of \$1,485. This working capital increase was principally the result of an increase in cash of approximately \$14,700 offset by decreases in receivables and inventories of approximately \$11,300 and an increase to accrued liabilities of approximately \$1,600.

Cash provided by operating activities was \$9,774 in 2001. The significant items affecting this amount were a net loss of \$9,700 offset by non-cash charges for depreciation, amortization, impairment and extraordinary losses, other non-cash gains, valuation provisions and other asset write-offs of approximately \$27,300. Significant changes in operating assets and liabilities also affecting cash provided by operating activities were primarily net increases of receivables of approximately \$2,100, other assets of approximately \$1,400 and inventories of approximately \$2,600 and net decreases of current liabilities, deferred revenue and other liabilities of approximately \$1,700.

Cash used in investing activities was \$12,631 in 2001. The significant items affecting this amount were the purchases of inventory leased to others of approximately \$13,000, purchases of property and equipment of approximately \$2,300 and an increase to intangible assets of approximately \$1,400 offset, in part, by proceeds from sale-leaseback transactions of \$3,500.

Cash provided by financing activities was \$17,462 in 2001. The significant items affecting this amount were proceeds from the issuance of notes payable of approximately \$99,700, proceeds from the issuance of common stock and warrants of approximately \$9,400 and proceeds from capital lease transactions of \$2,000 offset, in part, by principal payments on notes, capital leases and payments for debt issuance costs of approximately \$93,100.

On August 22, 2001, the Company completed the private placement of \$105,000 of its 11.875% Senior Secured Notes ("Indenture") due 2008 and warrants to purchase an aggregate of 420,000 shares of its common stock at a price of \$7.70 per share. Interest payments of \$6,234 are due on May 1, and November 1, until 2008. The Senior Secured Notes due 2008 are secured by a security interest in certain of the Company's assets and certain assets of the Guarantor subsidiaries. The Indenture includes a covenant whereby the Company is to maintain \$5,000 of available liquidity as defined in the Indenture. On or after August 15, 2005, the Company will have the right to redeem all or some of the notes at a price that will decrease over time from 105.938% of the principal amount in 2005 to 100% of the principal amount in 2007, plus accrued and unpaid interest. Following each fiscal year, if the Company has excess cash flow for such fiscal year, the Company will offer to purchase up to an aggregate principal amount of notes equal to 50% of such excess cash flow at a price equal to 100% of the principal amount plus accrued and unpaid interest. The Company also completed, on August 10, 2001, the sale of 1,500,000

shares of its common stock to institutional investors in a private placement for \$8,250. The total proceeds were used to retire certain term loans and other credit facilities, to fund related fees and expenses and for working capital purposes.

In February 2002, the Company completed the acquisition of a \$17,500 working capital revolving line of credit facility (the "Facility") with Foothill Capital Corporation. Borrowings under the Facility are based on (i) eligible accounts receivable, as defined in the Facility, up to \$7,500 with interest at LIBOR plus 2.75% or prime plus 0.75% and (ii) Table Game EBITDA, as defined in the Facility, up to \$10,000 with interest at prime plus a range of 2.0% to 3.5% depending on debt coverage ratios. Any borrowings under the Facility will be secured by a first secured interest in substantially all of the Company's assets. We are subject to a 0.5% per annum unused line fee. The Facility has early payoff penalties during the term of the line at 3.0% during the first year, 2.0% during the second year and 1.0% during the third year. The Facility includes certain restrictive financial covenants, including maintenance of \$20,000 of annual EBITDA, minimum table games revenue of \$750 monthly and a table game installed base of no less than 600 games. The Facility has an initial term of three years.

Based on the amount of cash in banks of approximately \$15,100, cash generated from operations and based on the availability of funds from the Company's recently acquired line of credit facility, management believes the Company has sufficient working capital on both a short and long-term basis.

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$105,195	\$ 53	\$ 142	\$ -	\$105,000
Capital lease obligations	4,618	2,369	2,193	56	-
Operating leases	37,446	9,026	12,755	4,317	11,348
Total	\$147,259	\$11,448	\$15,090	\$4,373	\$116,348

Above table includes accretion of debt discount of \$5,567.

During 2000 and 2001, the Company entered into a series of sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have a term of 40 months, a fair value purchase option at the end of the term, and are being accounted for as operating leases. Proceeds from these sale-leaseback transactions totaled \$15,000.

Also during 2000, the Company entered into a sale-leaseback transaction with respect to one of its buildings in Las Vegas, Nevada, with a term of 17 years and a fair value purchase option at the end of the term. The leaseback is being accounted for as an operating lease. Proceeds from the sale-leaseback transaction were \$2,668. The Company recorded a deferred gain from this transaction of \$269 which is being amortized, straight-line over the term of the lease as a reduction in rental expense. The lease contains a minimum net worth requirement with which the Company was in violation at December 31, 2001. Because of the violation, the Company paid \$800 in 2001 for a letter of credit to secure future rent payments to the landlord and potentially could be obligated to purchase an additional \$2,200 letter of credit.

During 2001, the Company entered into two sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have terms of 40 months and 44 months and are being treated as capital leases. Proceeds from these sale-leaseback transactions totaled \$2,000.

During 2000, the Company entered into a series of sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have a term of 40 months and are being treated as capital leases. Proceeds from these sale-leaseback transactions totaled \$3,000.

Other Commercial Commitments -----	Total Amount Committed -----	Less than 1 year -----	1-3 years -----	4-5 years -----	After 5 years -----
Standby letters of credit	\$2,300	\$1,500	\$ -	\$ -	\$800
Total commercial commitments	\$2,300	\$1,500	\$ -	\$ -	\$800
	=====	=====	=====	=====	=====

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. Certain of our accounting policies, including the estimated lives assigned to our assets, the determination of bad debts, inventory valuation reserves, asset impairment and self insurance reserves require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, terms of existing contracts, our observance of industry trends, information provided by or gathered from our customers and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. To provide an understanding of the methodology we apply, our significant accounting policies are discussed where appropriate in this discussion and analysis and in the notes to our consolidated financial statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the FASB issued two new standards, SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. Together these statements will change the accounting for business combinations and goodwill. SFAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. SFAS 142 changes the accounting for goodwill and indefinite lived intangible assets from an amortization method to an impairment only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of SFAS 142. Amortization will still be required for identifiable intangible assets with finite lives. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not previously been issued. The Company is required to adopt SFAS 142 at the beginning of 2002. The impact that SFAS 141 and SFAS 142 will have on our financial condition or results of operations will be to reduce amortization expense of certain assets previously amortized by approximately \$1,700 annually beginning in 2002. The Company will also be required to make an initial impairment assessment and review goodwill for impairment on an ongoing basis, at least annually.

In July 2001, the SEC issued SAB No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues. SAB 102 gives guidance on the documentation and methodologies used in the determination of loan loss allowances. We believe the adoption of this bulletin will not have a material impact on our consolidated financial condition or results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, which will begin January 1, 2002. Based on a recent analysis, we believe the adoption of this bulletin will not have a material impact on our consolidated financial condition or results of operations.

CAPITAL EXPENDITURES AND OTHER

During 2001, the Company spent approximately \$2,300 for purchases of property and equipment and approximately \$13,000 for purchases of inventory leased to others. Purchases of property and equipment are limited to \$6,000 per year under the terms of the Company's recently acquired revolving Facility. The Company presently does not plan any significant purchases of property and equipment for the year ending December 31, 2002. The Company plans to purchase inventory for lease to others only to the extent that specific machines not currently on lease or participation at casinos are used or based on contractual commitments with the supplier of its gaming machines. The Company, in March 2002, entered into a contractual commitment to purchase a minimum of 125 slot machines each calendar quarter beginning July 1, 2002 through June 30, 2003 for a new slot machine introduction. These purchases will total approximately \$4,000. Presently, the Company owns or leases approximately 500 machines which are not currently in use at casinos. Planned purchases for slot machines (inventory leased to others), therefore, for 2002 should be significantly less than in 2001. The Company acquired certain rights to develop software from its supplier of slot machines in exchange for an advance payment on royalties. The advance royalty payment made by the Company in April 2002 was approximately \$1,600.

In March 2002, the Company closed a transaction with an owner of patents and intellectual property relating to two unique poker games. As part of this transaction, the Company loaned \$1,500 to the owner, to be paid back to the Company within three years at a 10.0% rate of interest.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

All dollar amounts reported in this section are expressed in thousands and rounded to the nearest thousand while units are expressed in whole amounts unless otherwise stated.

Foreign Currency Risk

There are two types of foreign currency exchange risks that a company may be subject to: transaction and translation gains or losses. Foreign currency transaction gains or losses are distinguished from translation gains or losses as follows: (i) translation adjustments do not involve the movement of cash, they are accounting conversion calculations of an existing functional currency to a reporting currency and (ii) transaction gain or losses, however, are based on an actual transaction that requires formal payment at a future point in time.

We are subject to foreign currency exchange risk relating to the translation of the our foreign subsidiaries' asset, liability, income and expense accounts. Our foreign subsidiaries use the local currency as their functional currency. The assets and liabilities of these subsidiaries are translated into U.S. dollars at the rate of exchange at the end of the period. The income and expense accounts are translated using the average rate of exchange during the period. Due to the long-term nature of our investment in our foreign operations, 75% of our intercompany translation adjustments are reflected as a separate component in stockholders' equity, and the remaining amount is recognized in the our consolidated statement of operations. Although we do not regularly incur gains or losses of specific foreign currency transactions and do not believe that these amounts would be material, these gains and losses would be reflected in our consolidated statement of operations. For the year ended 2001, we did not have any forwards, options or other derivative contracts in force. We do not consider our existing foreign currency translation exposure to be material.

Interest Rate Risk

We have total interest bearing debt of approximately \$110,000 before discounts. The components of this amount have fixed rates of interest and we therefore, do not have exposure to the fluctuation of market interest rates. However, we recently acquired a \$17,500 revolving line of credit which bears floating rate interest on outstanding borrowings. At December 31, 2001, we had not yet obtained this line of credit. Any future borrowings will be exposed to market rate risk. We periodically review our interest rate exposure, if any, on our long-term debt and, as market conditions warrant, we may enter into an interest rate cap or swap agreements in order to manage this exposure. For the year ended December 31, 2001, we did not have any agreements in force. See Note 10 - Long-Term Debt in the Notes to Consolidated Financial Statements.

Item 8. Consolidated Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2001, 2000 and 1999

Report of Independent Public Accountants (Arthur Andersen LLP)	37
Independent Auditors' Report (Deloitte &Touche LLP)	38
Consolidated Balance Sheets as of December 31, 2001 and 2000	39
Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000 and 1999	41
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2001, 2000 and 1999	42
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2001, 2000 and 1999	43
Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999	44
Notes to Consolidated Financial Statements	47
Quarterly Results of Operations (Unaudited)	80

All other schedules are omitted because of the absence of conditions under which they are required or because the information is included in the financial statements or the notes thereto.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Mikohn Gaming Corporation:

We have audited the accompanying consolidated balance sheets of Mikohn Gaming Corporation and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
April 1, 2002

INDEPENDENT AUDITORS' REPORT

Mikohn Gaming Corporation:

We have audited the accompanying consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows of Mikohn Gaming Corporation (the "Company") for the year ended December 31, 1999. These financial statements and Subsidiaries are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above of Mikohn Gaming Corporation present fairly, in all material respects, the results of operations and cash flows for the year ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Las Vegas, Nevada
February 26, 2000

MIKOHN GAMING CORPORATION
CONSOLIDATED BALANCE SHEETS
as of December 31, 2001 and 2000

(Amounts in thousands)	2001	2000
ASSETS	-----	-----
Current assets:		
Cash and cash equivalents	\$ 15,124	\$ 462
Accounts receivable, net	20,320	21,195
Notes receivable - related parties - current		2,528
Installment sales receivable - current	981	2,724
Inventories, net	17,693	23,882
Prepaid expenses	3,889	3,964
Deferred tax asset - current	5,275	5,478
Total current assets	63,282	60,233
Notes receivable - related parties - noncurrent	2,401	158
Installment sales receivable - noncurrent	92	2,906
Property and equipment, net	32,510	25,815
Intangible assets, net	62,827	65,681
Goodwill, net	3,006	4,145
Other assets	11,469	7,250
Net assets of business transferred under contractual agreement		558
Total assets	\$175,587	\$166,746
	=====	=====

See notes to consolidated financial statements

MIKOHN GAMING CORPORATION
CONSOLIDATED BALANCE SHEETS
as of December 31, 2001 and 2000

(Amounts in thousands except per share amounts)	2001 -----	2000 -----
LIABILITIES AND STOCKHOLDERS' EQUITY -----		
Current liabilities:		
Long-term debt and notes payable - current	\$ 2,422	\$ 2,149
Trade accounts payable	8,210	8,894
Customer deposits	2,618	2,635
Accrued taxes	2,318	2,562
Accrued royalties	2,024	1,126
Accrued interest	2,213	675
Accrued and other current liabilities	3,060	3,689
Deferred revenues - current	1,508	1,075
Deferred license fees - current	447	451
	-----	-----
Total current liabilities	24,820	23,256
Long-term debt and notes payable - noncurrent	101,823	84,949
Deferred revenues - noncurrent	1,194	3,397
Deferred tax liability - noncurrent	18,076	18,279
Deferred license fees - noncurrent	1,020	1,411
Deposit on net assets transferred under contractual agreement		4,749
Other liabilities		1,500
	-----	-----
Total liabilities	146,933	137,541
	-----	-----
Commitments and contingencies (see Note 12)		
Stockholders' equity:		
Preferred stock, \$0.10 par value, 5,000 shares authorized, none issued and outstanding		
Common stock, \$0.10 par value, 100,000 shares, authorized 12,745 and 11,087 shares issued and outstanding	1,276	1,109
Additional paid-in capital	65,751	56,677
Stockholders' notes receivable	(1,023)	(1,023)
Foreign currency translation	(1,079)	(987)
Accumulated deficit	(36,043)	(26,343)
	-----	-----
Subtotal	28,882	29,433
Less treasury stock, 19 shares, at cost	(228)	(228)
	-----	-----
Total stockholders' equity	28,654	29,205
	-----	-----
Total liabilities and stockholders' equity	\$175,587	\$166,746
	=====	=====

See notes to consolidated financial statements

MIKOHN GAMING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2001, 2000 and 1999

(Amounts in thousands except per share amounts)	2001 -----	2000 -----	1999 -----
Revenues:			
Gaming operations	\$ 44,074	\$ 34,796	\$ 25,256
Product sales	66,983	65,970	81,628
	-----	-----	-----
Total revenues	111,057	100,766	106,884
	-----	-----	-----
Operating costs:			
Gaming operations	28,336	20,145	13,596
Product sales	63,422	68,374	70,950
Corporate expense	12,860	13,926	12,266
Impairment losses	1,702	-	-
Write-off of assets and other	1,201	9,852	1,352
	-----	-----	-----
Total operating costs	107,521	112,297	98,164
	-----	-----	-----
Operating income (loss):			
Gaming operations	15,738	14,651	11,660
Product sales	3,561	(2,404)	10,678
Corporate expense	(12,860)	(13,926)	(12,266)
Impairment losses	(1,702)	-	-
Write-off of assets and other	(1,201)	(9,852)	(1,352)
	-----	-----	-----
Total operating income (loss)	3,536	(11,531)	8,720
Interest expense	(11,729)	(10,516)	(8,850)
Other income and (expense)	1,628	(58)	720
	-----	-----	-----
Income (loss) before income tax benefit	(6,565)	(22,105)	590
Income tax benefit	-	-	342
	-----	-----	-----
Income (loss) before extraordinary item	(6,565)	(22,105)	932
Extraordinary item-loss on early retirement of debt, net of income tax benefit of zero	(3,135)	-	-
	-----	-----	-----
Net income (loss)	\$ (9,700)	\$(22,105)	\$ 932
	=====	=====	=====
Weighted average common shares:			
Basic	11,750	10,968	10,720
	=====	=====	=====
Diluted	11,750	10,968	10,784
	=====	=====	=====
Basic and diluted income (loss) per share:			
Income (loss) before extraordinary item	\$ (0.56)	\$ (2.02)	\$ 0.09
Extraordinary item-loss on early retirement of debt, net of income tax benefit of zero	(0.27)	-	-
	-----	-----	-----
Net income (loss)	\$ (0.83)	\$ (2.02)	\$ 0.09
	=====	=====	=====

See notes to consolidated financial statements

MIKOHN GAMING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2001, 2000 and 1999

(Amounts in thousands)	2001 -----	2000 -----	1999 -----
Net income (loss)	\$(9,700)	\$(22,105)	\$ 932
Comprehensive loss:			
Foreign currency translation losses	(92)	(390)	(36)
	-----	-----	-----
	\$(9,792)	\$(22,495)	\$ 896
	=====	=====	=====

See notes to consolidated financial statements

MIKOHN GAMING CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2001, 2000 and 1999

(Amounts in thousands)

	Common Stock		Additional	Stockholders'	Foreign	Accumulated	Treasury	Total
	Shares	Amount	Paid-In Capital	Notes Receivable	Currency Translation	Retained Earnings / Deficit	Stock	
Balance, January 1, 1999	10,662	\$ 1,068	\$ 52,983	\$ (1,365)	\$ (1,018)	\$ (4,713)	\$ (228)	\$ 46,727
Stock options exercised	27	3	103					106
Employee stock purchase plan	111	11	376					387
Cancellation of common stock	(20)	(2)	(112)	114				-
Translation adjustments					(36)			(36)
Net income						932		932
Disposition of cost basis subsidiary to 50% equity basis owned affiliate					457	(457)		-
Balance, December 31, 1999	10,780	1,080	53,350	(1,251)	(597)	(4,238)	(228)	48,116
Stock options exercised	194	20	815					835
Employee stock purchase plan	94	9	523					532
Stock options and warrants granted to consultants and vendors			1,989					1,989
Payments on stockholders' notes				228				228
Translation adjustments					(390)			(390)
Net loss						(22,105)		(22,105)
Balance, December 31, 2000	11,068	1,109	56,677	(1,023)	(987)	(26,343)	(228)	29,205
Stock options exercised	66	6	261					267
Employee stock purchase plan	111	11	420					431
Stock options and warrants granted to consultants and vendors			232					232
Private placement	1,500	150	6,766					6,916
Stock warrants issued with bonds			1,739					1,739
Other			(344)					(344)
Translation adjustments					(92)			(92)
Net loss						(9,700)		(9,700)
Balance, December 31, 2001	12,745	\$ 1,276	\$ 65,751	\$ (1,023)	\$ (1,079)	\$ (36,043)	\$ (228)	\$ 28,654

See notes to consolidated financial statements

MIKOHN GAMING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001, 2000 and 1999

(Amounts in thousands)

	2001	2000	1999
	-----	-----	-----
Cash flows from operating activities:			
Net income (loss)	\$ (9,700)	\$(22,105)	\$ 932
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	7,627	6,244	5,228
Amortization	4,779	4,873	4,121
Write-off of assets and other	1,201	9,852	1,352
Provision for bad debts	4,167	4,034	522
Provision for obsolete inventory	3,069	5,061	836
Amortization of debt discount and debt issue costs	1,787		
Loss on early extinguishment of debt	3,135		
Gain on disposition of assets	(22)	(346)	
Gain on MGA stock sale and system agreement	(1,334)		
Losses from affiliates	1,083	215	
Impairment loss	1,702		
Stock options issued to consultants	79	233	
Changes in assets and liabilities:			
Accounts receivable	(2,608)	421	1,402
Notes receivable - related parties	(569)	(533)	
Installment sales receivable	1,107	(1,752)	352
Inventories	(2,552)	905	(4,524)
Prepaid expenses	4	554	(1,887)
Other assets	(1,403)	(1,200)	(13)
Trade accounts payable	(762)	(2,735)	3,606
Accrued and other current liabilities	1,182	914	(1,490)
Other liabilities	(1,500)		
Customer deposits	(348)	(797)	(934)
Deferred revenue	(350)	(63)	(7)
Deferred taxes			(2,348)
	-----	-----	-----
Net cash provided by operating activities	9,774	3,775	7,148
	-----	-----	-----
Cash flows from investing activities:			
Proceeds from note receivable, divestiture of subsidiary	100	4,418	471
Cash retained by former subsidiary			(485)
Purchase of inventory leased to others	(12,955)	(20,329)	(5,804)
Proceeds from sale leaseback transactions	3,500	11,500	
Proceeds from sale of assets held for sale		714	
Purchase of property and equipment	(2,334)	(1,524)	(3,170)
Proceeds from sales of property and equipment	504	2,875	897
Increase in intangible assets	(1,446)	(1,362)	(2,119)
	-----	-----	-----
Net cash used in investing activities	(12,631)	(3,708)	(10,210)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from long-term debt and notes payable	99,670	4,823	6,072
Principal payments on notes payable and long-term debt	(83,085)	(7,405)	(7,187)
Debt issuance costs	(7,975)		
Proceeds from capital lease transactions	2,019	3,000	
Principal payments on capital leases	(2,067)	(1,271)	

MIKOHN GAMING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
	-----	-----	-----
Principal payments of deferred license fees	(395)	(395)	
Proceeds from issuance of common stock and warrants	9,352	1,367	493
Notes receivable - stockholders		228	
	-----	-----	-----
Net cash provided by financing activities	17,519	347	(622)
	-----	-----	-----
Increase in cash and cash equivalents	14,662	414	(3,684)
	-----	-----	-----
Cash and cash equivalents, beginning of period	462	48	3,732
	-----	-----	-----
Cash and cash equivalents, end of period	\$ 15,124	\$ 462	\$ 48
	=====	=====	=====

See notes to consolidated financial statements

MIKOHN GAMING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2001, 2000 and 1999

(Amounts in thousands)	2001 -----	2000 -----	1999 -----
Supplemental disclosure of cash flows information:			
Cash paid during the year for:			
Interest	\$ 8,444 =====	\$9,610 =====	\$8,832 =====
State and federal taxes	\$ 148 =====	\$ 235 =====	\$ 161 =====
Supplemental schedule of non-cash investing and financing activities:			
Issuance of warrants		\$1,420 =====	
Perpetual license accrual for PGI and PSLeasing			\$2,627 =====
Deferred taxes on acquisition of perpetual license			\$1,424 =====
Reclassify property held for sale			\$ 781 =====
Australian foreign currency translation			\$ 457 =====
Deposit on assets transferred under contract		\$ 141 =====	
Gaming equipment leased to others acquired through capital lease	\$ 2,000 =====	\$3,000 =====	
Property and equipment acquired through capital lease	\$ 46 =====	\$1,125 =====	\$1,060 =====
Reclassify inventory to gaming equipment leased to others	\$12,678 =====	\$6,788 =====	\$5,804 =====
Deferred license fees			\$2,257 =====
Write off of installment note and deferred revenue	\$ 1,938 =====		
Reclassify notes payable from paid in capital	\$ 341 =====		
Reclassify accrued liability to goodwill	\$ 269 =====		
Cancellation of note receivable from stockholder			\$ 114 =====
Net investment in subsidiary converted to note receivable upon divestiture			\$ 557 =====
Credit on State of Utah note payable	\$ 44 =====	\$ 27 =====	
Acquisition of Mikohn's Australia subsidiary through forgiveness of intercompany obligation	\$ 518 =====		
Divestiture of Mikohn's South America subsidiary, net of cash received	\$ 400 =====		
Deferred revenue on sale of intellectual property rights		\$1,938 =====	

See notes to consolidated financial statements

MIKOHN GAMING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note: All amounts (dollars and numbers) reported in the Notes to Consolidated Financial Statements are expressed in thousands and are rounded to the nearest thousand (except per share amounts) unless otherwise specified (such as basis points). Additionally, certain amounts reported in prior years have been reclassified to be consistent with the current year's reporting.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business:

Mikohn Gaming Corporation (referred throughout these notes, together with its subsidiaries as "Mikohn", "the Company", "we" or "our") was incorporated in May 1986 in Nevada. Mikohn is a leading developer, manufacturer, and marketer of (i) proprietary branded slot machine and table games, including our Yahtzee(R) and Battleship(R) series of gaming machines and Caribbean Stud(R) table game, and (ii) gaming products, including signage and progressive jackpot systems. The Company's current facilities are in the U.S., the Netherlands, Peru and Australia.

Our worldwide operations are concentrated in two principal business segments: gaming operations and gaming products.

Gaming Operations. We established our gaming operations business unit in 1993 to develop, acquire, manufacture and distribute proprietary games, and these have become increasingly important to our business. Increased attention has been given to gaming operations because of the high recurring revenues and profit margin potential for this business line. We own or license the rights to several categories of proprietary games, which we place in casinos under lease arrangements. These leases provide for fixed rental payments or a participation in the game's operating results. Sales of proprietary games are reflected in the reported results of our gaming products business segment while revenues derived from leases are included in the results of our gaming operations business segment.

Product Sales. We have been providing gaming products and equipment around the world since 1987. First selling progressive jackpot systems, we expanded to sign manufacturing and other related products. Our gaming products are found in almost every major gaming jurisdiction and include:

- . interior casino signage;
- . exterior signage;
- . electronic components used in progressive jackpot systems;
- . player tracking and information gathering and control systems; and
- . gaming machines for sale.

Customers for our gaming products include casinos, slot machine manufacturers, operators of wide-area gaming networks and lottery authorities. We have achieved leading market positions with a number of our products because they are recognized as being creative, innovative and technologically-advanced.

Business Activity. In 1998, the Company acquired all of the outstanding stock of Progressive Games, Inc. ("PGI"), the developer of Caribbean Stud(R), for an aggregate cash consideration of \$35,847. Also acquired were the two exclusive distributors of Caribbean Stud(R) in the major markets of Mississippi and Louisiana, PSLeasing Corporation, Inc. and PSLeasing LLC (collectively referred to as "PSLeasing"), for an aggregate cash consideration of \$3,300. In addition to these proprietary games, the assets of PGI included equipment and other physical property used in the manufacture and distribution of these games and a perpetual license. The perpetual license amounted to \$50,952. In 1999, additional perpetual licenses were recorded in the amounts of \$3,774 and \$293 attributable to the acquisitions of PGI and PSLeasing, respectively. These amounts were for the Year 2000 costs and international tax withholding issues. See Note 12 - Commitments and Contingencies.

On November 4, 1999, the Company entered into four agreements with TAB Limited, a publicly traded Australian corporation ("TAB").

Under a Share Sale Agreement, the Company sold 50% of the issued shares in the capital of its Australian subsidiary, Mikohn Gaming Australasia Pty., Limited ("MGA"), for cash in the amount of \$4,889.

Under the terms of the Share Sale Agreement, the Company was entitled to and did report 100% of the income of MGA for 1999. Therefore, MGA's income statement was included in the Company's consolidated statements of operations and cash flows for 1999. Additionally, due to circumstances surrounding certain put and call options included in the arrangement whereby TAB could put such stock to the Company under certain circumstances, a determination was made that, although a legal transfer of business ownership to TAB occurred, the transaction was not recognized as a sale for accounting purposes. As such, the net assets of MGA were segregated in the balance sheets of the Company in order to properly convey the distinction between the legal effect of the transaction and its accounting treatment.

A Shareholders Agreement between TAB, MGA and the Company provides for the appointment and removal of directors, voting procedures, restrictions on share transfers, activities requiring super majority approval and other matters commonly found in agreements of this nature.

A Management Services Agreement between the Company and MGA provides that the Company will make management personnel available to MGA. MGA is responsible for compensating such personnel. The agreement terminates if the Company's ownership of the issued share capital in MGA falls below 35% or if the audited consolidated financial statements of MGA in a fiscal year show a net loss on an after-tax basis. Other than reimbursement for expenses, the Company receives no compensation under this agreement.

A System Acquisition and Services Agreement between TAB and the Company required the Company to provide hardware and software to operate a wide area progressive jackpot system in New South Wales, Australia. In the third quarter, the Company completed the project and the provisions relating to the put option held by TAB for its stock in MGA were cancelled. As result, the Company included in other income a net gain of \$1,334 relating to the sale of the stock and system project. The Company is to provide certain services to TAB to further enhance the system, for which it will be paid and will provide the hardware component of the system at cost. The Company will receive a software license fee of \$(AUD)50.00 per month per device connected to a linked progressive system. The Company expects to commence receiving these revenues in the second quarter of 2002.

Acquisitions / Divestitures of Subsidiaries. On November 15, 2001, the Company converted \$518 of debt owing from MGA into 20,000 shares of MGA, thereby increasing our ownership from 50% to approximately 93%. Prior to this transaction, the Company had accounted for this unconsolidated subsidiary using the equity method whereby the Company would record a 50% share of earnings or losses of this subsidiary. Subsequent to this transaction, the Company now consolidates all accounts of this subsidiary into its consolidated financial statements. From January 1, 2001 to November 15, 2001, approximately \$700 was charged to product sales revenues for the equity in losses of this affiliate. For the period November 15, 2001 to December 31, 2001, MGA accounted for approximately \$1,000 in revenues, \$250 in gross profit and \$400 in net loss. The Company acquired current assets of approximately \$2,500 (principally inventory) and non-current assets of approximately \$1,000 (principally intangible assets). Liabilities, principally accounts payable and accrued liabilities, of approximately \$1,000 were assumed. Additionally, the related party receivable from MGA to the Company of approximately \$2,800, subsequent to the reduction of \$518 of the amount owed from MGA to the Company for the 20,000 shares of MGA, was eliminated from the assets of the Company.

In October 2001, the Company completed the sale of 50% of its interest in Mikohn Latin America S.A. Certain officers and management of Mikohn Latin America, through RLP Holdings, purchased a 50% interest for approximately \$500 in cash and a note. The Company accounts for the financial results

of this entity using the equity method since October 2001. Equity in earnings and losses of the affiliate is now charged to revenues on a monthly basis with a corresponding charge to the Company's investment in subsidiary account. Prior to the 50% divestiture, the financial results of Mikohn Latin America were included in the consolidated results of operations. Through September 30, 2001, Mikohn Latin America accounted for approximately \$2,200 in revenues, \$900 in gross profit, and net income of approximately \$100. From October to December 2001, approximately \$297 of equity in losses of affiliates is included in product sales revenues. From this divestiture, the Company divested itself, for consolidation accounting purposes, of approximately \$2,100 of current assets (principally accounts receivable and inventory), approximately \$1,000 of non-current assets (principally property and equipment) and approximately \$700 of liabilities (principally accounts payable and accrued liabilities). Additionally, an intercompany payable of approximately \$1,300, owed from Mikohn Latin America to the Company at the time of the divestiture, was converted into a note receivable from related party.

Summary Of Significant Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts for the Company and all of its majority-owned subsidiaries and are maintained in accordance with accounting principles generally accepted in the United States of America. All material intercompany balances and transactions have been eliminated. The Company divested a 50% interest in the issued shares in the capital of Mikohn Latin America S.A. at the end of September 2001. Beginning in October 2001, the Company reports this entity's operations under the equity method of accounting. The Company's investment in Mikohn Latin America at December 31, 2001 is approximately \$265 and is included in other assets. Additionally, in November 2001, the Company acquired an additional 42.6% interest in the capital of MGA. This subsidiary had previously been accounted for using the equity method. However, because the Company, beginning in November 2001, owns approximately 93% of this subsidiary, the accounts of MGA are consolidated with the accounts of Mikohn Gaming Corporation and other majority-owned subsidiaries.

Cash and Cash Equivalents. Investments which mature within 90 days from the date of purchase are treated as cash equivalents and are included in cash and cash equivalents.

Fair Values of Financial Instruments. In accordance with reporting and disclosure requirements of the Statement of Financial Accounting Standards ("SFAS") No. 107 - Disclosures about Fair Values of Financial Instruments, the Company calculates the fair value of financial instruments and includes this information in the Company's Notes to Consolidated Financial Statements when the fair value is different than the book value of those financial instruments. When fair value is equal to book value, no disclosure is made. Fair value is determined using quoted market prices whenever available. When quoted market prices are not available, the Company uses alternative valuation techniques such as calculating the present value of estimated future cash flows utilizing discount rates commensurate with the risks involved.

Concentration of Credit Risk. The Company sells its products and services to distributors and gaming properties primarily in the United States, Canada, Europe, Australia and South America. The Company established a financing program under which interest bearing installment sales contracts collateralized by the equipment sold were entered into with credit worthy customers, with payment terms typically ranging over periods of 12 to 24 months. The Company performs credit evaluations of its customers, and typically requires advance deposits of approximately 50%. The Company maintains reserves for potential credit losses.

Notes Receivable - Related Parties. The Company classifies certain receivables from officers and Mikohn Latin America as "notes receivable - related parties". In October 1997, the Board of Directors of the Company (the "Board") authorized a loan in the amount of \$122.5 to the chairman of the Company's board of directors at an interest rate of 6.37% secured by 20 shares of the Company's common stock which is due to mature on October 20, 2002. At December 31, 2001 and 2000, the outstanding balance on this loan was \$166 and \$158, respectively, including accrued interest.

On December 31, 1999 due to the divestiture of 50% of the issued shares of the capital of MGA, the Company's intercompany balance with MGA was converted to a note receivable with interest at 9.5%; amounts outstanding at December 31, 2000 were \$2,669. In November 2001, the Company purchased an additional 42.6% in MGA. Thus at December 31, 2001, the balance of the note receivable is eliminated in consolidation.

In addition, on October 1, 2001, the Company divested itself of 50% of the issued shares in the capital of Mikohn Latin America S.A. through a sale to RLP Holdings, a company owned by officers and management of Mikohn Latin America. The sale price was \$500 and RLP paid \$100 with the remaining amount being financed plus interest. Additionally, the Company's intercompany balance with Mikohn Latin America was converted to a note receivable with an interest rate of 12.5%. At December 31, 2001, both the amounts owed from RLP Holdings and the amounts owed from Mikohn Latin America to the Company of \$2,234 are included in "notes receivable - related parties" as a long-term note receivable.

Notes Receivable from Stockholders. In October 1997, the Board adopted resolutions (i) allowing each director and senior officer to purchase up to 20 shares of authorized but unissued restricted Common Stock from the Company at the closing price of \$5.687 per share on October 30, 1997 and (ii) authorizing each such person to borrow the price of the shares purchased from the Company. Each purchaser gave the Company a promissory note for a principal amount equal to the purchase price, maturing October 20, 2002 (or at termination of employment by the Company, whichever first occurs), bearing interest at the rate of 6.37% per annum payable annually in arrears on each anniversary date, and secured by a pledge of the shares so purchased. All of the Company's directors except Mr. Campbell and all of its senior officers except Mr. Thompson are participating in the program. Each participating director and officer has borrowed \$113.7, representing the aggregate purchase price of 20 shares of Common Stock at \$5.687 per share. The balance of the notes receivable from stockholders is classified as a component of stockholders' equity.

Inventories. Inventories are stated at the lower of cost (determined using the first-in, first-out method) or market.

Long-Lived Assets. Property and equipment are stated at cost and are depreciated by the straight-line method over the useful lives of the assets, which range from 5 to 39 years. Proprietary slot machines leased to others are generally depreciated over 5 years using the straight-line method. Costs of major improvements are capitalized; costs of normal repairs and maintenance are charged to expense as incurred. Management requires long-lived assets that are held and used by the Company to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Patents and Trademarks. The Company capitalizes the cost of developing and defending patents and trademarks. These costs are amortized over the useful life of the patent or trademark.

Intangible Assets. Intangible assets consist of patent and trademark rights, goodwill, intellectual property rights, covenants not to compete, software costs, license fees and perpetual license. They are recorded at cost and are amortized on a straight-line basis over periods of 5 to 40 years. Management regularly performs reviews to determine if the carrying value of intangible assets is impaired. The purpose of the review is to identify any facts or circumstances, either internal or external, which may indicate that the carrying value of the asset cannot be recovered. To date, no such impairment has been indicated except amounts included in the write-off of assets and other. See Note 9 - Impairment Loss, Write-off of Assets and Other, and Extraordinary Item.

Deposits and Product Sales Recognition. Deposit liabilities represent amounts collected in advance from customers pursuant to agreements under which the related sale of inventory has not been completed.

Commitments and Contingencies. The Company is involved in various legal proceedings. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and the amount is reasonably estimable.

Foreign Currency Translation. The Company classifies foreign currency gains/(losses) on its long-term investments in its foreign subsidiaries as adjustments to the equity section of the balance sheet.

Foreign subsidiaries report their financial results into U. S. dollars by using translation rates at the end of the period for balance sheet accounts, except for those accounts which are required to be reported at historical amounts, and by using an average translation rate for the period for income statement accounts.

Revenue Recognition. The Company recognizes revenue as follows:

Product sales are executed by a signed contract or customer purchase order. Revenue for product sales is recognized upon shipment of the product unless installation is a requirement for contract completion and customer acceptance, in which case revenue is recognized when installation has been completed and accepted by the customer. In certain instances, where the Company installs a product as an accommodation to the customer, the customer will take title to a product at the time of delivery and revenue is recognized for the product at that time.

System sales consist of a suite of products (some of which are sold separately) that enable gaming entities to track customer gaming activity, account for slot machine activity, and operate progressive jackpot systems. There are proprietary hardware and software components to the systems. The Company accounts for systems sales in accordance with Statement of Position 97-2 - Software Revenue Recognition ("SOP 97-2"). System sales are considered multiple element arrangements because they include hardware, software, installation, training and post customer support. System sales are evidenced by a signed contract. Follow-up spare parts and hardware only sales are evidenced with a purchase order. Revenue for systems sales are recognized when:

- . There are signed contracts with a fixed determinable price;
- . Collectibility of the sale is probable and
- . The hardware and software has been delivered, installed, training has been completed and acceptance has occurred.

Not all systems contracts require installation. Examples include sales of hardware only to (i) previous customers that are expanding their systems, (ii) customers that have multiple locations and do installation themselves and require an additional software license and hardware and (iii) customers purchasing spare parts.

Maintenance and support is sold under agreements with established vendor specific objective evidence of price. Maintenance contracts are generally for a period of twelve months, with revenue recognized ratably over the contract service period.

Further training is also sold under agreements with established vendor specific objective evidence of price, which is based on daily rates and is recognized upon delivery.

The leasing of proprietary table games to casino customers occur under signed lease agreements. Table game lease contracts are typically for a 36-month period with a 30-day cancellation clause. The lease revenue is recognized on a monthly basis.

The leasing of proprietary slot machines occurs under signed lease agreements. These contracts will either be on a participation or a lease basis. Slot machine lease contracts are typically for a 12-month period with a 60-day cancellation clause. On a participation basis, the Company earns a share of the revenue that the casino earns from these slot machines. On a lease basis, the Company charges a fixed amount per slot machine per day. Both types of revenue are recognized on a monthly basis.

Equity Instruments Issued to Consultants and Vendors. The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of Emerging Issues Task Force ("EITF") 96-18 - Accounting for Equity Instruments That are

Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services and EITF 00-18 - Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized as a charge to the statement of operations over the term of the consulting agreement. The number of uncanceled options issued to consultants at December 31, 2001 was 104.

In addition, the Company has received from Hasbro and Ripley licensing rights to intellectual property, including rights to develop and market gaming devices and associated equipment under the trademarks Yahtzee(R), Monopoly(R), Battleship(R), Trivial Pursuit(R) and Ripley's-Believe It or Not!(R). In exchange for these license agreements, the Company granted Hasbro and Ripley warrants to purchase shares of the Company's common stock for each license. See Note 15 - Stock Based Compensation Plans.

Related Party Transactions. During 2001, the Company entered into various material transactions with related parties. Specifically, the Company sold approximately \$280 of products to its 50% owned affiliate in Latin America subsequent to the Company's divestiture of 50% of this subsidiary on October 1, 2001. Additionally, the Company charged its Latin American affiliate approximately \$36 in interest expense. The Company also had significant transactions with its Australian affiliate from prior to the Australian affiliate being consolidated with the Company on November 15, 2001. Specifically, the Company charged its Australian affiliate \$172 in interest charges, \$213 in royalty fees relating to electronic sales, charges for table games of \$465, and \$194 in net sales of various products. Approximately \$600 of net costs were charged from the Australian affiliate to the Company for various costs from January 1, 2001 to November 15, 2001. During 2000, the Company charged its Australian affiliate \$201 in interest charges, \$170 in royalty fees relating to electronic sales, charges for table games of \$587 and charges for various sales of \$218. Approximately \$600 of net costs were charged from the Australian affiliate to the Company for various costs during 2000. All sales and expense charges to or from affiliates were deemed to be arms-length transactions.

Research and Development. Costs associated with the development of products are expensed when incurred. Such expenses totaled approximately \$4,226, \$5,159 and \$6,013 for the years ended December 31, 2001, 2000 and 1999, respectively.

Software Development Capitalization. The Company capitalizes costs related to the development of certain software products that meet the criteria under SFAS No. 86 - Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. Costs capitalized for the years ended December 31, 2001 and 2000 were \$667 and \$690, respectively.

Income Taxes. The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes, pursuant to which the Company records deferred income taxes for temporary differences that are reported in different years for financial reporting and for income tax purposes. Such deferred tax liabilities and assets are classified into current and non-current amounts based on the classification of the related assets and liabilities.

Use of Estimates and Assumptions. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications. Certain amounts in the prior years' consolidated financial statements have been reclassified to make them consistent with the presentation used in 2001.

2. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table presents the carrying amount and estimated fair value of our financial instruments at December 31, 2001:

	Carrying Amount -----	Estimated FMV ----
Assets:		
Notes and installment sales receivable	\$ 3,474 =====	\$ 3,297 =====
Liabilities:		
Long-term debt	\$104,245 =====	\$104,896 =====

The estimated fair value of notes and installment sales receivables was calculated by discounting the stream of receipts using discount rates determined by management to reflect the risk, remaining maturities and current comparable market rates of similar notes receivable and contract receivables. The estimated fair value of long-term debt was determined by using quoted market prices and where quoted market prices are not available calculated primarily utilizing the present value of estimated future cash flows utilizing discount rates commensurate with the risks involved.

3. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2001 and 2000 consist of the following:

	2001 ----	2000 ----
Trade accounts	\$20,912	\$23,714
Employee	318	736
Other	2,081	736
	-----	-----
Subtotal	23,311	25,186
Less: allowance for doubtful accounts	(2,991)	(3,991)
	-----	-----
Net	\$20,320 =====	\$21,195 =====

Included in employee receivables are advances to the chairman of \$166 and \$279 as of December 31, 2001 and 2000, respectively.

Changes in the allowance for doubtful accounts for the years ended December 31, 2001 and 2000 are summarized as follows:

	2001	2000
	-----	-----
Allowance for doubtful accounts - beginning	\$(3,991)	\$(1,439)
Net consolidated / affiliates	(162)	
Provision for bad debts	(4,167)	(4,333)
Write-offs	5,421	1,797
Recoveries	(92)	(16)
	-----	-----
Allowance for doubtful accounts - ending	\$(2,991)	\$(3,991)
	=====	=====

See Note 10 - Long-Term Debt

4. INSTALLMENT SALES RECEIVABLE

The Company finances certain sales. See Note 17 - Concentrations of Credit Risk. The amounts financed during 2001 and 2000 totaled approximately \$425 and \$4,051, respectively. At December 31, 2001 and 2000, the balance of installment sales receivable was \$1,073 and \$5,630, of which \$981 and \$2,724, respectively, were due within 12 months. At December 31, 2001 and 2000, the Company had \$638 and \$1,064, respectively, in allowance for doubtful accounts for installment sales receivables which are included in the allowance for doubtful accounts reported above. The Company has deferred revenues related to these receivables of \$0 and \$1,938, as of December 31, 2001 and 2000, respectively.

See Note 10 - Long-Term Debt

5. INVENTORIES

Inventories at December 31, 2001 and 2000 consist of the following:

	2001	2000
	-----	-----
Raw materials	\$13,876	\$13,308
Finished goods	7,187	9,580
Work-in-progress	3,058	6,296
	-----	-----
Subtotal	24,121	29,184
Less: reserve for obsolete inventory	(6,428)	(5,302)
	-----	-----
Total	\$17,693	\$23,882
	=====	=====

Changes in the reserve for obsolete inventory for the years ended December 31, 2001 and 2000 are summarized as follows:

	2001 -----	2000 -----
Reserve for obsolete inventory - beginning	\$(5,302)	\$(1,763)
Provision for obsolete inventory	(3,069)	(5,061)
Write-offs	1,943	1,522
	-----	-----
Reserve for obsolete inventory - ending	\$(6,428)	\$(5,302)
	=====	=====

See Note 10 - Long-Term Debt

6. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2001 and 2000 consist of the following:

	2001 -----	2000 -----
Land	\$ 1,018	\$ 1,018
Buildings and leasehold improvements	3,942	3,380
Machinery and equipment	7,521	8,863
Equipment leased to others	31,976	20,994
Furniture and fixtures	8,696	8,918
Transportation equipment	1,945	2,179
	-----	-----
Subtotal	55,098	45,352
Less: accumulated depreciation	(22,588)	(19,537)
	-----	-----
Total	\$ 32,510	\$ 25,815
	=====	=====

See Note 10 - Long-Term Debt

7. INTANGIBLE ASSETS

Intangible assets at December 31, 2001 and 2000 consist of the following:

	2001	2000
	-----	-----
Perpetual license	\$ 55,019	\$ 55,019
Patent and trademark rights	10,891	10,566
Covenants not to compete	9,918	10,418
Proprietary property rights	1,253	1,229
Software costs	2,977	2,310
Customer list	321	
License fees	2,357	2,257
	-----	-----
Subtotal	82,736	81,799
Less: accumulated amortization	(19,909)	(16,118)
	-----	-----
Total	\$ 62,827	\$ 65,681
	=====	=====

In 2001 and 2000, \$317 and \$599 respectively, was spent on patent and trademark rights development and protection.

8. GOODWILL

Goodwill at December 31, 2001 and 2000 consists of the following:

	2001	2000
	-----	-----
Goodwill	\$ 5,240	\$ 6,083
Less: accumulated amortization	(2,234)	(1,938)
	-----	-----
Total	\$ 3,006	\$ 4,145
	=====	=====

During 2001, goodwill related to the acquisition of Casino Excitement Inc., the Company's exterior sign business, was written-off in the amount of \$1,247. Additionally, goodwill related to foreign subsidiaries in the amount of \$455 was also written-off. These write-offs were recorded based on a decline in the operations of these businesses and an assessment of impaired values in light of current economic conditions. See Note 9 - Impairment Loss, Write-Off of Assets and Other, and Extraordinary Item.

During 2000, goodwill related to the acquisitions of Games of Nevada and Trans Sierra Communications, Inc. ("TSC") in the amounts of \$545 and \$384, net of amortization, respectively, was written off. The write-offs were due to the decline in the Flip-It(R) slot operation and write-down of related inventory, and the decision to discontinue the TSC line of business.

9. IMPAIRMENT LOSS, WRITE-OFF OF ASSETS AND OTHER, AND EXTRAORDINARY ITEM

Subsequent to the events of September 11, 2001, the impact of which was felt throughout the worldwide economy, and based on the current economic and business environment relative to financial reporting practices, the Company performed a detailed, comprehensive review of its balance sheet relative to the changed economic and business environment conditions. Specifically identified during this review, management analyzed goodwill assets for impairment, slow moving, excess or obsolete inventories, customer debts in light of changing economic conditions and other miscellaneous assets.

This review and analysis resulted in the Company taking various charges in its fourth quarter of 2001 for (i) impaired assets (principally goodwill and nonoperating fixed assets of approximately \$2,900 included in the "Write-off of Assets and Other" and "Impairment Loss" captions), (ii) receivables, including significant amounts owed from debtors who purchased certain patent and internet rights, for which collectibility is now considered doubtful (approximately \$2,800 which is included in the operating income segments), (iii) inventory reserves including those related to the energy crisis and the economic decline (approximately \$2,200 included in the operating income segments), (iv) losses incurred in foreign operations due to the collapse of the Argentina economy and softness in the Australasian market (approximately \$600 included in revenues) and (v) miscellaneous charges related to medical insurance claims and certain international slot leasing revenues of \$1,000 (included in operating income segments).

In connection with the Company's August, 2001 refinancing and early extinguishment of certain of its outstanding debt obligations, the Company incurred extraordinary charges for the early extinguishment of debt, totaling \$3,135, during the year ended December 31, 2001.

During 2000, as a result of the Company's increased focus on its gaming operations and branded slot machines following the review conducted as part of its strategic repositioning initiative, Mikohn determined that certain of its older non-branded slot machines games, surveillance assets and prepaid royalties related to a licensing agreement had balance sheet costs (primarily long-term assets) in excess of their present realizable value, resulting in a write-off in 2000 of \$6,651. Provisions for inventory writedowns of \$1,553 and \$1,644 relating to the older non-branded Flip-It(TM) product line as well as the Mikohn Classic(TM) slot machines and certain surveillance assets, respectively, have been included in cost of sales in the accompanying consolidated financial statements.

On March 27, 2001, a jury returned a verdict in favor of Acres Gaming, Inc. ("Acres") against the Company. See Note 12 - Commitments and Contingencies. The jury's award of \$1,500 has been included in the accompanying consolidated statement of operations for the year ended December 31, 2000. In addition, the Company has recorded an impairment to the value of capitalized patent costs related to this judgment amounting to \$1,700, which has also been included within this balance in the consolidated statement of operations for the year ended December 31, 2000.

During the year ended December 31, 1999, we incurred a non-recurring asset write-off of \$1,352 related to our PMCoin product line, which includes our Mikohn Classic(TM) slot machine games. During 1999, pursuant to SFAS No. 121 - Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, to more accurately reflect the value of the PMCoin slot machine product line, we recorded a write-off of assets of \$1,352. These charges included write-offs of both the investment in the product line as well as prepaid royalties associated with the product line.

10. LONG-TERM DEBT

Long-term debt at December 31, 2001 and 2000 consists of the following:

	2001 -----	2000 -----
Capital leases collateralized by transportation, gaming and manufacturing equipment. This total consists of 18 capital leases that bear individual interest rates between 4.1% and 13.19% and whose terms are scheduled to mature at various dates through 2006. The related capitalized cost for these leases was \$7,005 at December 31, 2001.	\$ 4,288	\$ 4,290
11.875% Senior Secured Notes due August 15, 2008, each unit consisting of \$1,000.00 principal amount and one warrant to purchase four shares of the Company common stock at \$7.70 per share. The notes were issued at \$944.33 per unit, plus accrued interest. Semi-annual interest payments are required to be made commencing November 1, 2001.	99,433	
Term Loans payable to First Source Financial LLP, repaid during 2001.		77,599
Revolving loan payable to First Source Financial LLP, repaid during 2001.		4,571
Unsecured notes payable to individuals. Interest rate is 10% with maturity dates through 2003.	185	
Notes payable collateralized by transportation and office equipment. Interest rates range from 0% to 12% with maturity dates through 2004.	145	
Other	194	638
Total	104,245	87,098
Less: current portion	(2,422)	(2,149)
Long-term portion	\$101,823 =====	\$84,949 =====

During 2001 the Company issued \$105,000 11.875% Senior Secured Notes ("Indenture") due August 15, 2008. Each unit consists of \$1,000.00 principal amount of the Indenture and one warrant to purchase four shares of the Company's common stock. The Company pays interest on the notes at an annual rate of 11.875%. Interest payments are due semi-annually, on each May 1, and November 1, beginning November 1, 2001. On or after August 15, 2005, the Company will have the right to redeem all or some of the notes at a price that will decrease over time from 105.938% of the principal amount in 2005 to 100% of the principal amount in 2007, plus accrued and unpaid interest. The Indenture includes a covenant whereby the Company is to maintain \$5,000 of available liquidity as defined in the Indenture. The Company is in compliance with this covenant as of December 31, 2001. The notes are secured by a security interest in certain of the Company's assets and certain assets of the Guarantor Subsidiaries. Following each fiscal year if the Company has excess cash flow for such fiscal year, we will offer to purchase up to an aggregate principal amount of notes equal to 50% of such excess cash flow at a price equal to 100% of the principal amount, plus accrued and unpaid interest.

Each warrant issued entitles the holder to purchase four shares of our common stock at a price of \$7.70. The warrants will expire on August 15, 2008. The fair market value of the warrants at date of issue was recorded as additional paid in capital.

During 2001, the Company entered into two sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have terms of 40 months and 44 months and are being treated as capital leases. Proceeds from these sale-leaseback transactions totaled \$2,000.

During 2000, the Company entered into two sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have a term of 40 months and are being treated as capital leases. Proceeds from these sale-leaseback transactions totaled \$3,000.

Following is the long-term debt maturity schedule:

2002	\$ 2,422
2003	1,653
2004	681
2005	53
2006	3
Thereafter	99,433

Total	\$104,245
	=====

11. DEFERRED LICENSE FEES

Deferred license fees at December 31, 2001 and 2000 consist of the following:

	2001	2000
	-----	-----
Total	\$1,467	\$1,862
Less current portion	(447)	(451)
	-----	-----
Long-term portion	\$1,020	\$1,411
	=====	=====

On December 29, 1999, the Company and Shuffle Master entered into an agreement settling a complex and long-standing series of lawsuits between Progressive Games Inc. ("PGI") and Shuffle Master and dozens of casinos arising out of claims by PGI that several table games offered by Shuffle Master infringed numerous patents held by PGI (now held by the Company). Under the terms of the settlement, Shuffle Master acknowledged the validity and enforceability of the Company's patents and agreed to pay Mikohn \$2,750 to settle all outstanding patent issues with respect to Shuffle Master's Let It Ride Bonus(R), Let It Ride The Tournament(R), Bahama Bonus(TM) and Three Card Poker(TM) games. The agreement provides that all future revenue of Let It Ride Bonus(R), Let It Ride The Tournament(R), and Three Card Poker(TM) will be royalty free to Shuffle Master. The settlement also (i) granted Mikohn the exclusive rights to Bahama Bonus(TM) worldwide, except for Nevada where Shuffle Master retains exclusive rights subject to Mikohn's rights to receive certain royalties and (ii) requires Shuffle Master to pay royalties to Mikohn based on future revenues from certain new games that may be developed by Shuffle Master.

Under separate license agreements executed in conjunction with the settlement agreement, Shuffle Master licensed certain of its intellectual property to Mikohn including rights under its coin sensing patents and multi-tiered game wagering patents. For these rights, Mikohn agreed to pay Shuffle Master future noncancellable royalties of approximately \$580 per year over the next three years including interest.

Following is the schedule of license payments:

2002	\$ 451
2003	451
2004	451

Total	\$ 1,353
	=====

In addition, Mikohn and Shuffle Master entered into a cross-supplier agreement covering a broad range of product lines including Mikohn's progressive table game and slot signage, controllers, electronic displays and slot glass, as well as Shuffle Master's card shuffling systems, coin sensors and other associated table game electronics. Under this agreement, Mikohn was appointed Shuffle Master's exclusive source in North America for progressive controllers and displays for table games. Shuffle Master was appointed Mikohn's exclusive source for automatic card shuffling machines.

12. COMMITMENTS AND CONTINGENCIES

We lease certain of our facilities and equipment under various agreements for periods through the year 2017. The following schedule shows the future minimum rental payments required under these operating leases, which have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2001:

2002	\$ 9,026
2003	8,772
2004	3,983
2005	2,191
2006	2,126
Thereafter	11,348

Total	\$37,446
	=====

Rent expense was \$7,663, \$3,984 and \$3,195 for the years ended December 31, 2001, 2000 and 1999, respectively.

During 2001, the Company entered into a series of sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have a term of 40 months, a fair value purchase option at the end of the term, and are being accounted for as operating leases. Proceeds from these sale-leaseback transactions totaled \$3,500. The Company has recorded deferred gains from these transactions totaling \$651 which are being amortized, straight line, over the term of the respective leases as a reduction in rental expense.

During 2000, the Company entered into a series of sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have a term of 40 months, a fair value purchase option at the end of the term, and are being treated as operating leases. Proceeds from these sale-leaseback transactions totaled \$11,500. The Company has recorded deferred gains from these transactions totaling \$1,902 which are being amortized, straight line, over the term of the respective leases as a reduction in rental expense.

Also during 2000, the Company entered into a sale-leaseback transaction with respect to one of its buildings in Las Vegas, Nevada, with a term of 17 years and a fair value purchase option at the end of the term. The leaseback is being accounted for as an operating lease. Proceeds from the sale-leaseback transaction were \$2,668. The Company has recorded a deferred gain from this transaction of \$269 which is being amortized, straight line over the term of the lease as a reduction in rental expense. The lease agreement contains a minimum net worth requirement; if net worth falls below a certain threshold, the Company must provide to the landlord a letter of credit. During the year ended December 31, 2001, the

Company's minimum net worth did not meet the requirements under the rental agreement. Because of the violation, the Company paid \$800 for a letter of credit to secure future rent payments to the landlord and potentially could be obligated to purchase an additional \$2,200 letter of credit.

The Company plans to purchase inventory for lease to others only to the extent that specific machines not currently on lease or participation at casinos are used or based on contractual commitments with the supplier of its gaming machines. The Company, in March 2002, entered into a contractual commitment to purchase a minimum of 125 slot machines each calendar quarter beginning July 1, 2002 through June 30, 2003 for a new slot machine introduction. These purchases will total approximately \$4,000. Presently, the Company owns or leases approximately 500 machines which are not currently in use at casinos. Planned purchases for slot machines (inventory leased to others), therefore, for 2002 should be significantly less than in 2001.

The Company is involved in routine litigation, including bankruptcies, collection efforts, disputes with former employees and other matters in the ordinary course of its business operations. Management knows of no matter, pending or threatened, that in its judgment will or might have a material adverse effect on the Company or its operations including those noted below.

We were a plaintiff in a suit entitled Mikohn Gaming Corporation v. Acres Gaming, Inc., Case No. CV-S-97-1383-EJW, brought in the United States District Court for the District of Nevada. This action was filed October 2, 1997 seeking, among other things, a declaratory judgment that our MoneyTime(TM) game did not infringe a patent issued to Acres Gaming in August 1997. Subsequent to the filing of this action, three additional patents were issued to Acres Gaming. As each patent was issued, Acres Gaming brought a separate suit against Mikohn for patent infringement. All three suits were ultimately consolidated with the first action. The consolidated action went to trial before a jury on March 14, 2001. On March 27, 2001, the jury returned a verdict finding that we infringed two of the four patents and awarded Acres Gaming damages of \$1,500. We initially appealed the verdict to the Federal Circuit Court of Appeals but in December 2001 reached a settlement resulting in a dismissal of that appeal, the payment of \$1,500 to Acres and the execution of a license agreement allowing our use of the Acres' patents going forward.

The Company is addressing tax issues relating to its table games operations. They are summarized below:

International Withholding Tax Issues. The Company has exposure to potential additional withholding taxes on payments repatriated by the previous owner of PGI, estimated at \$1,379. The Company has provided to the former owner a Power of Attorney with which to handle the withholding tax issues. To the extent that the Company does not prevail, any payments made may be charged back to the previous owner under the terms of the Stock Purchase Agreement for the acquisition of PGI. The Company had one year from the date of acquisition in which to effect a change in the amount of goodwill. Based on the potential withholding tax exposure, the Company adjusted goodwill in the amount of the \$1,379 during August 1999.

13. INCOME TAXES

The provision (benefit) for income taxes for the years ended December 31, 2001, 2000 and 1999 consist of:

	2001	2000	1999
	----	----	----
Current	\$ -	\$ -	\$ 2,006
Deferred			(2,348)
	-----	-----	-----
Total provision (benefit)	\$ -	\$ -	\$ (342)
	=====	=====	=====

The provision (benefit) for income taxes for the years ended December 31, 2001, 2000 and 1999 differs from the amount computed at the federal income tax statutory rate as a result of the following:

	2001 -----	% -	2000 -----	% -	1999 -----	% -
Amount at statutory rate	\$(3,395)	35.0%	\$(7,737)	35.0%	\$ 206	35.0%
Adjustments:						
State income tax and other	(142)	1.5%	(150)	0.7%	19	3.2%
Non-deductible expenses	47	-0.5%	98	-0.4%	61	10.3%
Prior year adjustment of deferred tax	3,719	-38.4%	(682)	3.1%		
Tax credits	(200)	2.1%	16	-0.1%	(628)	-106.4%
Valuation allowance	(29)	0.3%	8,455	38.30%		
	-----		-----		-----	
Total provision (benefit)	\$ -	-0.0%	\$ -	0.0%	\$(342)	-57.9%
	=====		=====		=====	

The components of the net deferred tax liability at December 31, 2001 and 2000 consist of the following:

	2001 -----	2000 -----
Deferred tax assets:		
Current:		
Inventory book / tax differences	\$ 3,961	\$ 2,832
Prepaid expenses and other	1,221	1,540
Patent litigation	93	1,120
	-----	-----
Subtotal	5,275	5,492
	-----	-----
Noncurrent:		
Deferred revenue	382	1,538
Tax credits	1,354	798
Intangible assets	294	2,033
Net operating loss carryforward	9,946	5,866
Valuation allowance	(8,426)	(8,455)
	-----	-----
Subtotal	3,550	1,780
	-----	-----
Total deferred tax assets	8,825	7,272
	-----	-----
Deferred tax liabilities:		
Current:		
Prepaid assets and other		14
	-----	-----
Subtotal		14
	-----	-----
Noncurrent:		
Perpetual license	17,939	18,168
Sale leaseback	1,245	
Property and equipment and other	2,442	1,891
	-----	-----
Subtotal	21,626	20,059
	-----	-----
Total deferred tax liabilities	21,626	20,073
	-----	-----
Net deferred tax liability	\$12,801	\$12,801
	=====	=====

At December 31, 2001, the Company had federal and alternative minimum tax ("AMT") net operating loss carryforwards of \$26,524 and \$15,521, which will begin to expire after the year ended December 31, 2018. The Company also had General Business and AMT tax credit carryforwards of \$1,073 and \$281, respectively. At December 31, 2001, a valuation allowance was recorded to reduce the deferred tax asset because recognition of the tax benefit could not be assured.

14. EARNINGS PER SHARE

The following table reflects the Company's basic and diluted earnings per share for the years ended December 31, 2001, 2000 and 1999:

	2001 ----	2000 ----	1999 ----
Net income (loss)	\$(9,700) =====	\$(22,105) =====	\$ 932 =====
Weighted average number of shares outstanding:			
Basic	11,750	10,968	10,720
Assumed conversion of stock options			64
Diluted	11,750 =====	10,968 =====	10,784 =====
Earnings per share:			
Basic	\$ (0.83) =====	\$ (2.02) =====	\$ 0.09 =====
Diluted	\$ (0.83) =====	\$ (2.02) =====	\$ 0.09 =====

For the years ended December 31, 2001 and 2000, the Company had both stock options and warrants issued to directors, employees, consultants, licensors and a supplier which were not included in the above-assumed conversion to stock options. To have included such stock options and warrants in the computation of earnings per share would have been anti-dilutive to the Company's loss per share.

15. STOCK BASED COMPENSATION PLANS

In 1993, the Company adopted, and in 1996, 1997 and 1999 amended, (i) a Stock Option Plan under which non-qualified and incentive stock options (as defined by the Internal Revenue Code) to purchase up to 2,900 shares of the Company's Common Stock which may be issued to officers, directors (other than non-employee directors), employees, consultants, advisers, independent contractors and agents and (ii) a Director Plan under which stock options to purchase up to 300 shares of the Company's Common Stock which may be issued only to non-employee directors. Generally, options have been granted at the fair market value on the date of grant and typically become exercisable at the rate of 20% of the options granted on each of the first through the fifth anniversaries of the date of the grant. Furthermore, options are normally granted for a period of ten years. The Company accounts for these plans under Accounting Principles Board Opinion No. 25 - Accounting for Stock Issued to Employees, under which no compensation cost has been recognized.

Had compensation cost for these plans been determined in accordance with SFAS No. 123 -Accounting for Stock - Based Compensation ("Statement 123"), the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	2001	2000	1999
	-----	-----	-----
Net income (loss):			
As reported	\$ (9,700)	\$ (22,105)	\$ 932
	=====	=====	=====
Proforma	\$ (10,625)	\$ (23,089)	\$ 126
	=====	=====	=====
Earnings (loss) per share:			
As reported -			
Basic	\$ (0.83)	\$ (2.02)	\$ 0.09
	=====	=====	=====
Diluted	\$ (0.83)	\$ (2.02)	\$ 0.09
	=====	=====	=====
Proforma -			
Basic	\$ (0.90)	\$ (2.11)	\$ 0.01
	=====	=====	=====
Diluted	\$ (0.90)	\$ (2.11)	\$ 0.01
	=====	=====	=====

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the 1999 through 2001 grants: risk-free interest at the date of grant which ranged from 3.5% to 7.78%; expected dividend yield of 0.0%; expected lives from 1 to 6 years; and expected volatility between 50 and 60 percent.

A summary of the status of the Company's stock option plans at December 31, 2001, 2000 and 1999 and changes during the years then ended is presented in the table below:

(Amounts in thousands except per option amounts)	2001		2000		1999	
	Options	Wtd. Avg. Exercise Price	Options	Wtd. Avg. Exercise Price	Options	Wtd. Avg. Exercise Price
Director Plan:						
Options, beginning of year	215	\$5.9707	160	\$5.6384	110	\$6.8796
Granted	60	5.1000	55	6.9375	50	2.9076
Exercised						
Cancelled						
Options, end of year	275	5.7807	215	5.9707	160	5.6384
Exercisable at end of year	162	6.0656	113	6.2496	67	7.3242
Weighted average ("Wtd. Avg.") fair value of options granted during the year		\$3.7415		\$4.8879		\$2.1266
Employee Plan:						
Options, beginning of year	1,763	\$5.7142	1,954	\$5.7493	1,950	\$5.9662
Granted	534	4.3442	394	5.5053	250	3.9950
Exercised	(67)	4.0714	(194)	4.2982	(28)	3.8418
Cancelled	(340)	4.6726	(391)	6.3822	(218)	5.9193
Options, end of year	1,890	5.5726	1,763	5.7142	1,954	5.7493
Exercisable at end of year	978	4.5772	827	4.4496	930	5.1594
Weighted average fair value of options granted during the year		\$3.2064		\$4.1568		\$2.9355

The following table summarizes information concerning options outstanding and options exercisable as of December 31, 2001:

(Amounts in thousands except per option amounts)	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Range of Exercise Prices					
Director Plan:					
\$2.7500 - \$4.0630	52	7.2	\$ 2.9496	36	\$ 2.9694
\$4.3750 - \$5.5000	116	7.3	4.9440	56	4.7768
\$7.2500 - \$9.2500	97	7.5	7.1141	60	7.2213
\$17.2500	10	1.9	17.2500	10	17.2500
	-----			-----	
	275			162	
	=====			=====	
Employee Plan:					
\$3.0000 - \$4.5000	1,269	6.3	\$ 4.0759	731	\$ 4.0994
\$4.5625 - \$6.7500	514	9.5	4.2201	186	5.2755
\$6.8750 - \$10.0000	107	6.6	7.9451	61	8.1976
	-----			-----	
	1,890			978	
	=====			=====	

Along with the above-discussed stock option plans, the Company may from time to time grant stock warrants to various licensors and as well as other individuals with whom the Company does business. In 1998, the Company entered into various licensing agreements with Hasbro, Inc. and Hasbro, International, Inc. (together, "Hasbro") which granted the Company rights to intellectual property, including rights to develop and market gaming devices and associated equipment under the trademarks Yahtzee(R), Monopoly(R) and Battleship(R). In exchange for these license agreements, the Company granted Hasbro warrants to purchase up to 125 shares of Company common stock for each license. At December 31, 2001, warrants to purchase 375 shares of the Company's common stock were vested with a fair market value of \$1,420. In connection with licenses to other properties, the Company has issued an additional 875 warrants not vested at December 31, 2001. In addition, the Company entered into an licensing agreement with Ripley Entertainment which granted the Company rights to intellectual property, including rights to develop and market gaming devices and associated equipment under the trademark for Ripley's Believe It or Not!(R). At December 31, 2001, warrants to purchase 35 shares of the Company's common stock were vested with a fair market value of \$153.

16. BENEFIT PLANS

Certain employees of Casino Excitement, Inc., a wholly-owned subsidiary of the Company, are covered by union-sponsored, collectively bargained, multi-employer, defined benefit plans. The Company's contributions to these plans, as determined in accordance with the provisions of the negotiated labor contracts based on the hours worked, for 2001, 2000 and 1999 were \$348, \$347 and \$401, respectively.

The Company adopted a savings plan (the "401(k) Plan") qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. The 401(k) Plan covers substantially all employees who are not covered by a collective bargaining unit. The Company's matching contributions for 2001, 2000 and 1999 were \$163, \$167 and \$162, respectively.

17. CONCENTRATIONS OF CREDIT RISK

The financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts and installment sales receivable. Product sales are primarily to casinos and gaming equipment manufacturers.

At December 31, 2001, accounts and installment sales receivable on a operations basis are as follows:

	Accounts Receivable	Installment Sales Receivable	Total
	-----	-----	-----
Trade receivables:			
Gaming Operations	\$ 6,514	\$ -	\$ 6,514
Product Sales	14,398	1,073	15,471
	-----	-----	-----
Trade receivables	20,912	1,073	21,985
	-----	-----	-----
Other receivables:			
Other	2,399		2,399
	-----	-----	-----
Subtotal	2,399		2,399
	-----	-----	-----
	\$ 23,311	\$ 1,073	\$ 24,384
	=====	=====	=====

18. GUARANTOR FINANCIAL STATEMENTS

On August 22, 2001, the Company completed the private placement of \$105,000 of its 11.875% Senior Secured Notes due 2008 and warrants to purchase an aggregate of 420 shares of its common stock at a price of \$7.70 per share. In addition, on August 10, 2001, the Company completed the sale of 1,500 shares of its common stock to institutional investors in a private placement for \$8,250.

A significant portion of the proceeds from the above transactions were used to retire certain term loans and other credit facilities approximating \$83,000.

The Company's domestic subsidiaries are 100% owned and have provided full and unconditional guarantees on a joint and several basis on the payment of the Senior Secured Notes. The financial statements for the guarantor subsidiaries follows:

MIKOHN GAMING CORPORATION
CONSOLIDATING CONDENSED BALANCE SHEET

(Amounts in thousands)

December 31, 2001

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash	\$ 14,354	\$ (267)	\$ 1,037	\$ -	\$ 15,124
Accounts receivable, net	11,769	6,724	1,827		20,320
Inventories, net	7,729	7,298	2,666		17,693
Other current assets	3,180	6,747	218		10,145
Total current assets	37,032	20,502	5,748		63,282
Property and equipment, net	10,824	21,276	410		32,510
Intangible assets	60,048	5,389	396		65,833
Investments in subsidiaries	14,017			(13,754)	263
Other assets	11,864	1,835			13,699
Total assets	\$ 133,785	\$ 49,002	\$ 6,554	\$ (13,754)	\$ 175,587
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities	\$ 15,446	\$ 6,677	\$ 2,697	\$ -	\$ 24,820
Intercompany transactions	(26,845)	22,458	4,387		-
Total current liabilities	(11,399)	29,135	7,084		24,820
Long-term debt, net of original issue discount of \$5,567	99,847	1,905	71		101,823
Other liabilities, long term	1,035	1,179			2,214
Deferred tax liability - noncurrent	15,648	2,428			18,076
Stockholders' equity	28,654	14,355	(601)	(13,754)	28,654
Total liabilities and stockholders' equity	\$ 133,785	\$ 49,002	\$ 6,554	\$ (13,754)	\$ 175,587

December 31, 2000

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash	\$ 540	\$ (375)	\$ 297	\$ -	\$ 462
Accounts receivable, net	11,601	7,332	2,262		21,195
Inventories, net	9,641	12,515	1,726		23,882
Other current assets	7,375	7,124	195		14,694
Total current assets	29,157	26,596	4,480		60,233
Property and equipment, net	11,156	14,112	547		25,815
Intangible assets	62,817	7,009			69,826
Investments in subsidiaries	8,984			(8,584)	400
Other assets	8,921	1,551			10,472
Total assets	\$ 121,035	\$ 49,268	\$ 5,027	\$ (8,584)	\$ 166,746
	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities	\$ 16,702	\$ 4,659	\$ 1,895	\$ -	\$ 23,256
Intercompany transactions	(33,915)	30,086	3,829		-
Total current liabilities	(17,213)	34,745	5,724		23,256
Long-term debt	83,127	1,807	15		84,949
Other liabilities, long term	8,082	2,975			11,057
Deferred tax liability -- noncurrent	17,833	446			18,279
Stockholders' equity	29,206	9,295	(712)	(8,584)	29,205
Total liabilities and stockholders' equity	\$ 121,035	\$ 49,268	\$ 5,027	\$ (8,584)	\$ 166,746
	=====	=====	=====	=====	=====

MIKOHN GAMING CORPORATION
CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

(Amounts in thousands)

December 31, 2001

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 63,430	\$ 49,990	\$ 9,947	\$ (12,310)	\$ 111,057
Cost of sales	30,058	23,681	6,603	(7,915)	52,427
Selling, general and administrative Expenses	29,102	19,713	3,376		52,191
Impairment loss	146	1,247	309		1,702
Write-off of assets and other	895	306			1,201
Operating income	3,229	5,043	(341)	(4,395)	3,536
Equity in earnings of subsidiaries	(2,359)			2,359	-
Interest expense	(11,181)	(316)	(232)		(11,729)
Other income and (expense)	1,566	112	(50)		1,628
Income before income taxes and extraordinary item	(8,745)	4,839	(623)	(2,036)	(6,565)
Income tax (provision) benefit	2,180	(2,180)			-
Income before extraordinary item	(6,565)	2,659	(623)	(2,036)	(6,565)
Extraordinary item, net of taxes	(3,135)				(3,135)
Net income	\$ (9,700)	\$ 2,659	\$ (623)	\$ (2,036)	\$ (9,700)

Twelve Months Ended December 31, 2000

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 64,353	\$ 41,878	\$ 8,702	\$ (14,167)	\$ 100,766
Cost of sales	27,580	29,800	7,394	(10,110)	54,664
Selling, general and administrative Expenses	31,382	13,596	2,803		47,781
Write-off of assets and other	5,921	3,931			9,852
Operating income (loss)	(530)	(5,449)	(1,495)	(4,057)	(11,531)
Equity in earnings of subsidiaries	(10,611)			10,611	-
Interest expense	(10,105)	(326)	(85)		(10,516)
Other income and (expense)	71	(70)	(59)		(58)
Income before income taxes and extraordinary item	(21,175)	(5,845)	(1,639)	6,554	(22,105)
Income tax provision	(930)	930			-
Income before extraordinary item	(22,105)	(4,915)	(1,639)	6,554	(22,105)
Extraordinary item, net of taxes					-
Net income (loss)	\$ (22,105)	\$ (4,915)	\$ (1,639)	\$ 6,554	\$ (22,105)

Twelve Months Ended December 31, 1999

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 62,986	\$ 37,513	\$ 19,447	\$ (13,062)	\$ 106,884
Cost of sales	28,718	22,368	13,862	(10,102)	54,846
Selling, general and administrative Expenses	26,963	9,484	5,217	302	41,966
Write-off of assets and other		1,352			1,352
Operating income (loss)	7,305	4,309	368	(3,262)	8,720
Equity in earnings of subsidiaries	(255)			255	-
Interest expense	(8,659)	(110)	(81)		(8,850)
Other income and (expense)	93	473	154		720
Income before income taxes and extraordinary item	(1,516)	4,672	441	(3,007)	590
Income tax provision	2,448	(2,106)			342
Income before extraordinary item	932	2,566	441	(3,007)	932
Extraordinary item, net of taxes					-
Net income (loss)	\$ 932	\$ 2,566	\$ 441	\$ (3,007)	\$ 932

MIKOHN GAMING CORPORATION
CONSOLIDATING CONDENSED CASH FLOW STATEMENTS

(Amounts in thousands)

For the Twelve Months Ended December 31, 2001

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ (959)	\$ 9,519	\$ 1,214	\$ -	\$ 9,774
Cash flows from investing activities:					
Purchase of inventory for lease to others		(12,955)			(12,955)
Proceeds from sale-leaseback transactions		3,500			3,500
Purchase of property and equipment	(1,458)	(770)	(106)		(2,334)
Proceeds from note receivable, sale of subsidiary	100				100
Other investing activities	(1,065)	123			(942)
Net cash (used in) provided by investing activities	(2,423)	(10,102)	(106)		(12,631)
Cash flows from financing activities:					
Proceeds from long-term debt	99,410		260		99,670
Debt issuance costs	(7,975)				(7,975)
Principal payments on long-term debt	(82,450)		(635)		(83,085)
Proceeds from issuance of common stock and warrants	9,352				9,352
Other financing activities	(1,141)	691	7		(443)
Net cash provided by (used in) financing activities	17,196	691	(368)		17,519
Increase in cash and cash equivalents	13,814	108	740		14,662
Cash and cash equivalents, beginning of period	540	(375)	297		462
Cash and cash equivalents, end of period	\$ 14,354	\$ (267)	\$ 1,037	\$ -	\$ 15,124

For the Twelve Months Ended December 31, 2000

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ (3,534)	\$ 6,942	\$ 367	\$ -	\$ 3,775
Cash flows from investing activities:					
Purchase of inventory for lease to others		(20,329)			(20,329)
Proceeds from sale-leaseback transactions		11,500			11,500
Purchase of property and equipment	(1,304)	(69)	(151)		(1,524)
Proceeds from note receivable, sale of subsidiary	4,418				4,418
Other investing activities	648	1,579			2,227
Net cash (used in) provided by investing activities	3,762	(7,319)	(151)	-	(3,708)
Cash flows from financing activities:					
Proceeds from long-term debt	4,823				4,823
Debt issuance costs					-
Principal payments on long-term debt	(5,172)	(1,781)	(452)		(7,405)
Proceeds from issuance of common stock and warrants	1,367				1,367
Other financing activities	(751)	2,328	(15)		1,562
Net cash provided by (used in) financing activities	267	547	(467)	-	347
Increase in cash and cash equivalents	495	170	(251)		414
Cash and cash equivalents, beginning of period	45	(545)	548		48
Cash and cash equivalents, end of period	\$ 540	\$ (375)	\$ 297	\$ -	\$ 462

For the Twelve Months Ended December 31, 1999

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ 2,055	\$ 5,073	\$ 20	\$ -	\$ 7,148
Cash flows from investing activities:					
Purchase of inventory for lease to others	(360)	(5,444)			(5,804)
Proceeds from sale-leaseback transactions					-
Purchase of property and equipment	(2,808)		(362)		(3,170)
Proceeds from note receivable, sale of subsidiary	471				471
Other investing activities	(1,819)	597	(485)		(1,707)
Net cash used in investing activities	(4,516)	(4,847)	(847)	-	(10,210)
Cash flows from financing activities:					
Proceeds from long-term debt	4,280	1,792			6,072
Debt issuance costs					-
Principal payments on long-term debt	(4,838)	(2,007)	(342)		(7,187)
Proceeds from issuance of common stock and warrants	493				493
Other financing activities					-
Net cash used in financing activities	(65)	(215)	(342)	-	(622)
Increase in cash and cash equivalents	(2,526)	11	(1,169)		(3,684)
Cash and cash equivalents, beginning of period	2,571	(556)	1,717		3,732
Cash and cash equivalents, end of period	\$ 45	\$ (545)	\$ 548	\$ -	\$ 48

SEGMENT REPORTING

The Company's worldwide operations are concentrated in two principal business segments: Gaming Operations and Product Sales. The Gaming Operations business segment was established in 1993 to develop, acquire, manufacture and distribute proprietary games, and these games have become increasingly important to its business. Increased attention has been given to Gaming Operations because of the high recurring revenues and profit margin potential for this business line. Mikohn owns or licenses the rights to several categories of proprietary games, which it places in casinos under lease arrangements. These leases either provide for a fixed rental payment or a participation in the game's operating results. Sales of proprietary games are reflected in the reported results of the Company's Product Sales business segment, while revenues derived from leases are included in the results of its Gaming Operations business segment. The Company's Product Sales business segment has been providing gaming products and equipment around the world since 1987. First it sold progressive jackpot systems and then it expanded to sign manufacturing as well as other related products. Its gaming products are found in almost every major gaming jurisdiction and include: (i) interior casino signage, exterior signage and electronic components used in progressive jackpot systems, (ii) player tracking and information gathering and control systems and (iii) gaming machines for sale. A 50% interest in the stock of the Company's Australian operation was divested late in 1999 and, therefore, only 50% of MGA's net loss after taxes is included in revenues effective in 2000. Effective November 2001, the Company owns approximately 93% of MGA and the entity is consolidated at that point. The accounting policies of the segments are the same as those described in Note 1 -Description of Business and Summary of Significant Accounting Policies. All inter-segment transactions have been eliminated.

Business segment information for the years ended December 31, 2001, 2000 and 1999 consists of:

Business Segments:	2001	2000	1999
-----	----	----	----
Revenue:			
Gaming operations	\$ 44,074	\$ 34,796	\$ 25,256
Product sales:			
Signage and electronic components	58,037	56,898	61,367
Player tracking and information gathering	5,705	4,747	12,756
Gaming machines	3,241	4,325	7,505
	-----	-----	-----
	66,983	65,970	81,628
	-----	-----	-----
Total	\$ 111,057	\$ 100,766	\$ 106,884
	=====	=====	=====
Gross profit:			
Gaming operations	\$ 36,416	\$ 28,291	\$ 22,979
Product sales	22,214	17,811	29,059
	-----	-----	-----
Total	\$ 58,630	\$ 46,102	\$ 52,038
	=====	=====	=====
Operating income (loss):			
Gaming operations	\$ 15,738	\$ 14,651	\$ 11,660
Product sales	3,561	(2,404)	10,678
	-----	-----	-----
Subtotal	19,299	12,247	22,338
Impairment losses	(1,702)		
Write-off of assets and other	(1,201)	(9,852)	(1,352)
Corporate	(12,860)	(13,926)	(12,266)
	-----	-----	-----
Total	\$ 3,536	\$ (11,531)	\$ 8,720
	=====	=====	=====

Business Segments:	2001	2000	1999
-----	----	----	----
Depreciation and amortization:			
Gaming operations	\$ 7,730	\$ 6,346	\$ 4,832
Product sales	1,419	1,592	2,030
	-----	-----	-----
Subtotal	9,149	7,938	6,862
Corporate	3,257	3,179	2,487
	-----	-----	-----
Total	\$ 12,406	\$ 11,117	\$ 9,349
	=====	=====	=====
Assets:			
Gaming operations	\$ 95,572	\$ 100,112	\$ 91,103
Product sales	41,264	44,748	50,947
	-----	-----	-----
Subtotal	136,836	144,860	142,050
Corporate	38,751	21,886	36,245
	-----	-----	-----
Total	\$ 175,587	\$ 166,746	\$ 178,295
	=====	=====	=====
Capital expenditures:			
Gaming operations	\$ 13,926	\$ 9,788	\$ 6,002
Product sales	1,922	1,315	2,698
	-----	-----	-----
Subtotal	15,848	11,103	8,700
Corporate	1,064	1,334	1,334
	-----	-----	-----
Total	\$ 16,912	\$ 12,437	\$ 10,034
	=====	=====	=====

The following is a description of the costs associated with each of the above departments:

Corporate expenses:			
Human resources	\$ 472	\$ 452	\$ 604
Executive and administration	1,875	2,232	2,897
Finance and MIS	3,548	2,984	2,381
Legal and compliance	982	1,617	1,062
Corporate facilities management	391	384	360
Research and development	436	365	617
Marketing	1,342	2,713	1,858
Depreciation and amortization	3,257	3,179	2,487
Bad debts	557		
	-----	-----	-----
	\$ 12,860	\$ 13,926	\$ 12,266
	=====	=====	=====

Human Resources. The Human Resources department is responsible for the following corporate functions: employee relations, labor relations, employment organizational development, records management and administration of the Company's benefit plans. Although most of the Human Resource functions are handled at corporate, each of the manufacturing facilities has its own human resource staff member who not only is responsible for the human resource function for that business segment but whose salary and benefits are also charged to that business segment.

Executive and Administration. The Executive and Administration department expenses consist of the salary and fringe benefits associated with the office of Chief Executive Officer, Executive Vice President of Operations, and their support staffs. It also includes the cost of the corporate headquarters, including rent and maintenance costs, office equipment, maintenance supplies, and office supplies.

Finance and MIS. The Finance department expenses consist of the salary and fringe benefits

associated with the office of the Chief Financial Officer, Director of Finance, Corporate Controller, Tax and SEC Reporting Manager and their staffs. These individuals are responsible for handling most of the accounting functions for all domestic operations including all financial statement preparation for internal and external reporting for both governmental and non-governmental entities. Although most of the Finance department functions are handled at corporate, each of the manufacturing facilities has its own Finance department staff member who not only is responsible for the accounting functions for that business segment but whose salary and benefits are also charged to that business segment.

The MIS department is responsible for the following: the determination of, acquisition of, and set-up of computer hardware and software for all domestic operations of the Company. The MIS department expenses include the salary and fringe benefits of the Manager of Information Systems and his staff as well as the cost of computer equipment maintenance, data lines and related costs.

Legal and Compliance. The Legal and Compliance department expense consists of the salary and fringe benefits associated with the office of General Counsel, Executive Director of Compliance and Patent Counsel as well as their support staffs. The Legal and Compliance department is responsible for the administration of all gaming licensing in more than 160 jurisdictions in which the Company is licensed. In addition, this department is responsible for the coordination of the shipping of all Company products to jurisdictions that require regulatory approval prior to placing products in a casino.

Corporate Facilities Management. The Corporate Facilities Management department is responsible for the maintenance of the corporate headquarters building in Las Vegas as well as five other facilities of the Company in the Las Vegas area. Transportation of inter-company mail to those same five facilities in Las Vegas as well as distribution of mail to individual offices at the corporate headquarters and outgoing mail are handled by this department as well.

Research and Development. The Research and Development department is responsible for the development of all the Company's products including ongoing upgrades of the Company's technology based products such as systems, slot machines and table games. All of the costs of developing a product from inception until the product is released to the Product Development / Production departments are included in this department. In addition, all of the costs of testing these products at the various gaming jurisdictions and approved laboratories are included as well.

Marketing. In conjunction with the Company's executive management, the Marketing department is responsible for establishing corporate policies, statements and operational procedures to create and continuously seek to present a positive image of the Company to key stakeholders including investors, customers and employees. In addition, it is also responsible for formulating, recommending and implementing marketing policies and programs in the areas of customer and sales support, advertising, promotions, public relations, investor relations and related activities.

Depreciation and Amortization. Depreciation and amortization for all corporate functions are reported together grouped into one caption.

The Company attributes revenue and expenses to a geographic area based on the location from which the product was shipped or the service was performed. Geographic segment information for the years ended December 31, 2001, 2000 and 1999 consists of:

Geographic Operations: -----	2001 ----	2000 ----	1999 ----
Revenue:			
North America	\$ 101,110	\$ 92,278	\$ 86,876
Australia / Asia	237	(215)	7,773
Europe / Africa	7,756	7,055	10,117
South America	1,954	1,648	2,118
	-----	-----	-----
	\$ 111,057	\$ 100,766	\$ 106,884
	=====	=====	=====
Gross profit:			
North America	\$ 55,286	\$ 45,009	\$ 46,246
Australia / Asia	(486)	(215)	2,249
Europe / Africa	3,161	657	2,490
South America	669	651	1,053
	-----	-----	-----
	\$ 58,630	\$ 46,102	\$ 52,038
	=====	=====	=====
Operating income:			
North America	\$ 3,862	\$ (9,821)	\$ 8,327
Australia / Asia	(733)	(215)	(291)
Europe / Africa	631	(1,088)	780
South America	(224)	(407)	(96)
	-----	-----	-----
	\$ 3,536	\$ (11,531)	\$ 8,720
	=====	=====	=====
Depreciation and amortization:			
North America	\$ 12,245	\$ 10,890	\$ 8,904
Australia / Asia	15		149
Europe / Africa	97	161	230
South America	49	66	66
	-----	-----	-----
	\$ 12,406	\$ 11,117	\$ 9,349
	=====	=====	=====
Assets:			
North America	\$ 169,034	\$ 162,725	\$ 171,624
Australia / Asia	3,627		558
Europe / Africa	2,926	2,164	4,318
South America		1,857	1,795
	-----	-----	-----
	\$ 175,587	\$ 166,746	\$ 178,295
	=====	=====	=====
Capital expenditures:			
North America	16,192	\$ 12,286	\$ 9,689
Australia / Asia	46		127
Europe / Africa	60	68	113
South America	614	83	105
	-----	-----	-----
	\$ 16,912	\$ 12,437	\$ 10,034
	=====	=====	=====

20. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the FASB issued two new standards, SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. Together these statements will change the accounting for business combinations and goodwill. SFAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. SFAS 142 changes the accounting for goodwill and indefinite lived intangible assets from an amortization method to an impairment only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of SFAS 142. Amortization will still be required for identifiable intangible assets with finite lives. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not previously been issued. The Company is required to adopt SFAS 142 at the beginning of 2002. The impact that SFAS 141 and SFAS 142 will have on our financial condition or results of operations will be to reduce amortization expense of certain assets previously amortized by approximately \$1.7 million annually beginning in 2002. The Company will also be required to make an initial impairment assessment and review goodwill for impairment on an ongoing basis, at least annually.

In July 2001, the SEC issued SAB No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues. SAB 102 gives guidance on the documentation and methodologies used in the determination of loan loss allowances. We believe the adoption of this bulletin will not have a material impact on our consolidated financial condition or results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, which will begin January 1, 2002. Based on a recent analysis, we believe the adoption of this bulletin will not have a material impact on our consolidated financial condition or results of operations.

21. SUBSEQUENT EVENTS

Foothill Capital Corporation - In February 2002, the Company completed the acquisition of a \$17,500 working capital revolving line of credit facility (the "Facility") with Foothill Capital Corporation. Borrowings under the Facility are based on (i) eligible accounts receivable, as defined in the Facility, up to \$7,500 with interest at LIBOR plus 2.75% or prime plus 0.75% and (ii) eligible EBITDA, as defined in the Facility, up to \$10,000 with interest at prime plus a range of 2.0% to 3.5% depending on debt coverage ratios. We are subject to a 0.5% per annum unused line fee. The Facility has early payoff penalties during the term of the line at 3.0% during the first year, 2.0% during the second year, and 1.0% during the third year. The Facility includes certain restrictive financial covenants, including maintenance of \$20,000 of annual EBITDA, minimum table games revenue of \$750 monthly and a table game installed base of no less than 600 games. The Facility has an initial term of three years.

GameCraft, Inc. - On March 11, 2002, we closed a transaction with GameCraft, Inc., the owner of patents and other intellectual property relating to two unique and innovative video poker games. We agreed to loan GameCraft, Inc. \$1,500 for up to three years at 10.0% rate of interest. At our option, the loan principal and interest is convertible, in whole or in part, into common stock of Gamecraft at any time prior to repayment of the loan by GameCraft, Inc. As additional consideration for the loan, GameCraft, Inc. granted us an exclusive license to manufacture and distribute its video poker games throughout most legal gaming jurisdictions in North America.

MIKOHN GAMING CORPORATION
QUARTERLY RESULTS OF OPERATIONS (unaudited)

	1/ST/ -----	2/ND/ -----	3/RD/ -----	4/TH/ -----	ANNUAL -----
Revenues:					
2001	\$25,268	\$27,220	\$27,287	\$ 31,282	\$111,057
2000	\$22,323	\$25,951	\$28,248	\$ 24,244	\$100,766
Gross profit:					
2001	\$13,077	\$16,140	\$15,666	\$ 13,747	\$ 58,630
2000	\$12,414	\$14,789	\$14,413	\$ 4,486	\$ 46,102
Net income (loss) before extraordinary item:					
2001	\$ 92	\$ 1,788	\$ 1,717	\$(10,162)	\$ (6,565)
2000	\$ 202	\$ 1,634	\$ 780	\$(24,721)	\$(22,105)
Net income (loss):					
2001	\$ 92	\$ 1,788	\$(1,418)	\$(10,162)	\$ (9,700)
2000	\$ 202	\$ 1,634	\$ 780	\$(24,721)	\$(22,105)
Weighted average shares outstanding:					
Basic -					
2001	11,068	11,117	12,072	12,721	11,750
2000	10,837	10,958	11,021	11,055	10,968
Diluted -					
2001	11,072	11,429	12,072	12,721	11,750
2000	10,964	11,088	11,178	11,055	10,968
Net income (loss) per share:					
Basic -					
2001	\$ 0.01	\$ 0.16	\$ (0.12)	\$ (0.80)	\$ (0.83)
2000	\$ 0.02	\$ 0.15	\$ 0.07	\$ (2.24)	\$ (2.02)
Diluted -					
2001	\$ 0.01	\$ 0.16	\$ (0.12)	\$ (0.80)	\$ (0.83)
2000	\$ 0.02	\$ 0.15	\$ 0.07	\$ (2.24)	\$ (2.02)

1. The company's interim financial information for the quarterly periods ended March 31, June 30 and September 30, 2001 have been corrected to reflect adjusted revenues, gross profit and net income (loss) as follows, due to the interpretation of revenue recognition with certain sales transactions:

	1st ---	2nd ---	3rd ---
Revenues:			
As reported	\$ 26,071	\$ 27,026	\$ 26,678
As corrected	25,268	27,220	27,287
Gross Profit:			
As reported	13,431	16,025	15,427
As corrected	13,077	16,140	15,666
Net income (loss):			
As reported	446	1,673	(1,657)
As corrected	92	1,788	(1,418)
Net income (loss) per share:			
Basic-			
As reported	\$ 0.04	\$ 0.15	\$ (0.14)
As corrected	\$ 0.01	\$ 0.16	\$ (0.12)
Diluted-			
As reported	\$ 0.04	\$ 0.15	\$ (0.14)
As corrected	\$ 0.01	\$ 0.16	\$ (0.12)

2. During the fourth quarter of 2001, the Company incurred unusual charges for: (i) impaired assets, principally goodwill and nonoperating fixed assets, of approximately \$2,900, (ii) receivables, including significant amounts owed from debtors who purchased certain patent and internet rights, for which collectibility is now considered doubtful of approximately \$2,800, (iii) inventory reserves related to the energy crisis and the economic decline of approximately \$2,200, (iv) losses incurred in foreign operations due to the collapse of the Argentina economy and softness in the Australasian market of \$600 and (v) miscellaneous charges related to medical insurance claims and certain international slot leasing revenues of \$1,000.
3. During the fourth quarter of 2000, the Company determined that certain of its older non-branded slot machines games, surveillance assets and prepaid royalties related to a licensing agreement had balance sheet values in excess of their present realizable value, resulting in charges to revalue fixed assets, accounts receivable, prepaid royalties, proprietary rights and goodwill to realizable value for older slot products of \$2,430, surveillance assets of \$720, prepaid royalties of \$3,356 and other of \$143. See Note 9 Impairment Loss, Write-off Of Assets and Other and Extraordinary Item. In addition, the Company charged to cost of sales \$3,197 for the writedown of certain inventories related to its older, non-branded slot machines. On March 27, 2001, a jury returned a verdict in favor of Acres Gaming, Inc. against the Company. See Note 13 - Commitments and Contingencies. The jury's award of \$1.5 million has been included in the accompanying statement of operations. In addition, the Company has recorded an impairment to the value of capitalized patent costs related to this judgment amounting to \$1.7 million which has also been included within this balance in the statement of operations.
4. See Note 9 - Impairment Loss, Write-off of Assets and Other and Extraordinary Item and Note 11 - Deferred License Fees.
5. The sum of the quarterly earnings per common share does not equal the amount reported for the year in total as the quarterly calculations are made independently during the year.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

The information required by Items 10 through 13 is set forth under the captions "Election of Directors," "Management," "Executive Compensation," "Principal Stockholders" and "Certain Transactions" in Mikohn Gaming Corporation's definitive Proxy Statement for the 2001 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference as if set forth in full.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. and 2. Financial Statements and Schedules

The financial statements and schedules filed as part of this report are listed in the Index to Consolidated Financial Statements under Item 8.

(3) Exhibits required by Securities and Exchange Commission Regulation S-K:

- 3.1 Amended and Restated Articles of Incorporation, incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 33-69076).
- 3.2 Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 33-69076).
- 4.6 Agreement between the Company, The Young Group, Inc. and John R. Young, dated November 7, 1994 (the "Young Agreement"), including certain exhibits thereto and a supplemental list identifying all exhibits and schedules thereto, incorporated by reference to Exhibit 2.1 to the Company's Form 10-Q for the quarter ended September 30, 1994.
- *10.9 Stock Option Plan, as amended, incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (No. 33-73506).
- *10.10 Director Stock Option Plan, as amended, incorporated by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994.
- 10.12 Form of Indemnification Agreement between the Company and its directors and executive officers, incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 33-69076).
- *10.13 Employment Agreement dated October 17, 1988, as amended, between the Company and David J. Thompson, incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the

Company's Registration Statement on Form S-1 (No. 33-69076).

- *10.14 Second Amendment to Employment Agreement, dated as of July 1, 1993, between the Company and David J. Thompson, incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994.
- *10.20 Employment Agreement, dated as of May 1, 1994, between the Company and Charles H. McCrea, Jr., incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K/A dated September 1, 1994.
- 10.25 Sales Agreement dated January 6, 1995, between Michael Wichinsky dba Games of Nevada and the Company incorporated by reference to Exhibit 10.25 to the Company's Report on Form 10-K for the year ended December 31, 1994.
- *10.35 Employment Agreement dated June 2, 1996, between the Company and Don Stevens incorporated by reference to Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
- *10.36 Employment Agreement dated January 27, 1997, between the Company and Louie Peyton incorporated by reference to Exhibit 10.26 of the Company's Form 10-Q dated March 31, 1997.
- 10.38 Credit Agreement dated October 24, 1997, between the Company and First Source Financial LLP ("Credit Agreement") documenting the Company's new \$40.0 million secured credit facility including exhibits incorporated by reference to Exhibit 10.35 of the Company's Form 10-Q dated September 30, 1997.
- 10.39 Assignment from First Source Financial LLP to Eaton Vance under the Credit Agreement incorporated by reference to Exhibit 10.36 of the Company's Form 10-Q dated September 30, 1997.
- 10.40 \$10.0 million Revolving Note under the Credit Agreement incorporated by reference to Exhibit 10.37 of the Company's Form 10-Q dated September 30, 1997.
- 10.41 Term Loan Note A under the Credit Agreement incorporated by reference to Exhibit 10.38 of the Company's Form 10-Q dated September 30, 1997.
- 10.42 Term Loan Note B under the Credit Agreement incorporated by reference to Exhibit 10.39 of the Company's Form 10-Q dated September 30, 1997.
- 10.43 Guaranty Executed by Borrower and Each Guarantor under the Credit Agreement incorporated by reference to Exhibit 10.40 of the Company's Form 10-Q dated September 30, 1997.
- 10.44 Security Agreement Executed by Borrower and Each Guarantor under the Credit Agreement incorporated by reference to Exhibit 10.41 of the Company's Form 10-Q dated September 30, 1997.
- 10.45 Trademark Security Agreement under the Credit Agreement incorporated by reference to Exhibit 10.42 of the Company's Form 10-Q dated September 30, 1997.
- 10.46 Patent Security Agreement under the Credit Agreement incorporated by reference to Exhibit 10.43 of the Company's Form 10-Q dated September 30, 1997.
- 10.47 Stock Pledge Agreement Executed by Mikohn under the Credit Agreement incorporated by reference to Exhibit 10.44 of the Company's Form 10-Q dated September 30, 1997.
- 10.48 Bank Agency Agreements under the Credit Agreement incorporated by reference to Exhibit 10.45 of the Company's Form 10-Q dated September 30, 1997.
- 10.49 Post Closing Agreement under the Credit Agreement incorporated by reference to Exhibit 10.46 of the Company's Form 10-Q dated September 30, 1997.
- 10.50 Deed of Trust under the Credit Agreement incorporated by reference to Exhibit 10.47 of the Company's Form 10-Q dated September 30, 1997.

- 10.51 Deed of Trust under the Credit Agreement incorporated by reference to Exhibit 10.48 of the Company's Form 10-Q dated September 30, 1997.
- 10.52 Composition Mortgage under the Credit Agreement incorporated by reference to Exhibit 10.49 of the Company's Form 10-Q dated September 30, 1997.
- 10.53 Agreement dated April 9, 1998, between the Company and Progressive Games, Inc. for the Company to acquire the stock of Progressive Games, Inc. incorporated by reference to Exhibit 10.53 of the Company's Form 10-Q dated March 31, 1998.
- 10.54 \$86.0 million Amended and Restated Credit Agreement among Mikohn Gaming Corporation, as Borrower, Each of the Financial Institutions together with their Lenders, and First Source Financial LLP, as Agent dated as of August 28, 1998 incorporated by reference to Exhibit 10.53 of the Company's Form 10-Q dated September 30, 1998.
- 10.55 Annex and Schedules to Amended and Restated Credit Agreement Dated as of August 28, 1998 incorporated by reference to Exhibit 10.54 of the Company's Form 10-Q dated September 30, 1998.
- *10.56 Third Amendment to Employment Agreement between the Company and Dennis A. Garcia dated November 16, 2001.
- *10.57 Sixth Amendment to Employment Agreement between the Company and Charles H McCrea, Jr. dated November 19, 2001.
- *10.58 Fifth Amendment to Employment Agreement between the Company and Donald W. Stevens dated November 19, 2001.
- *10.59 Eighth Amendment to Employment Agreement between the Company and David J Thompson dated November 19, 2001.
- *10.60 Employment Agreement between the Company and Olaf Vancura dated August 31, 1998.
- *10.61 First Amendment to Employment Agreement between the Company and Olaf Vancura dated November 15, 2001.
- 10.62 Secured Convertible Debenture dated March 11, 2002 between the GameCraft, Inc. and the Company.
- 21.1 Subsidiaries
- 23.1 Consent of Arthur Andersen LLP
- 23.2 Consent of Deloitte &Touche LLP
- 99 Representation from Arthur Andersen LLP to the Company dated April 15, 2002 sent to the Securities Exchange Commission.
- 99.1 Audited Financial Statements for Mikohn Nevada

* Management contracts and compensation plans

(b) Reports on Form 8-K filed during the last quarter of 2000.

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIKOHN GAMING CORPORATION

April 15, 2002

By: /s/ Don W. Stevens

Don W. Stevens, Executive Vice
President, Treasurer, Principal
Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
/s/ David J. Thompson ----- David J. Thompson	Chairman of the Board, President and Chief Executive Officer	April 15, 2002
/s/ Dennis A. Garcia ----- Dennis A. Garcia	Executive Vice President Director	April 15, 2002
/s/ Bruce E. Peterson ----- Bruce E. Peterson	Director	April 15, 2002
/s/ Terrance W. Oliver ----- Terrance W. Oliver	Director	April 15, 2002
/s/ John K. Campbell ----- John K. Campbell	Director	April 15, 2002
/s/ James E. Meyer ----- James E. Meyer	Director	April 15, 2002
/s/ Douglas M. Todoroff ----- Douglas M. Todoroff	Director	April 15, 2002

THIRD AMENDMENT TO EMPLOYMENT AGREEMENT

THIS THIRD AMENDMENT TO EMPLOYMENT AGREEMENT, is made and entered into as of the 16th day of November, 2001, by and between MIKOHN GAMING CORPORATION ("MIKOHN") and DENNIS A. GARCIA ("Employee").

W I T N E S S E T H:

WHEREAS, MIKOHN and Employee deem it to be in their respective best interests to amend that certain Employment Agreement, as amended, entered into as of January 1, 2000, between MIKOHN and Employee (the "Agreement").

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements contained herein, it is hereby agreed as follows:

1. The term of employment specified in Section 1 shall be extended to December 31, 2006.

2. The following shall be added as Section 6.10:

f. Compensation After Termination of Employment. Except as

set forth in this Section 6.10, this Agreement may not be terminated by MIKOHN without good cause. Upon termination of employment by Employee or for good cause, Employee's compensation provided herein shall cease and terminate without any further right of Employee to any further compensation or consideration by reason of his employment with MIKOHN hereunder. Employee may be terminated without good cause only with the approval of the President and the Chairman of the Board of Directors. In the event Employee is terminated without good cause, Employee's stock option rights shall remain in full force and effect and, in addition, MIKOHN shall pay to Employee the greater of [1] a sum equal to Employee's Base Salary for the most recent calendar year or [2] a sum equal to the Base Salary payable to Employee over the remaining term of this Agreement. For purposes of this Agreement, "Base Salary" means Base Annual Salary plus Draw. Any sum payable under this Section shall be paid in full upon the effective date of the termination of the employment relationship between MIKOHN and Employee. Upon the expiration of this Agreement without renewal by MIKOHN, MIKOHN shall pay to Employee a sum equal to Employee's Base Salary for the most recent calendar year. Said sum shall be paid in full upon the effective date of the termination of the employment relationship between MIKOHN and Employee. Except as provided, in this Section 6.10 Employee expressly waives all rights and remedies, legal and equitable, arising from or related to any alleged breach of this Agreement by MIKOHN.

IN WITNESS WHEREOF, the parties hereto have read, understood,
and voluntarily executed this Third Amendment to Employment Agreement as of the
day and year first above written.

EMPLOYEE

/s/ Dennis A. Garcia

DENNIS A. GARCIA

MIKOHN GAMING CORPORATION

By: /s/ Charles H. McCrea

Title: Secretary

SIXTH AMENDMENT TO EMPLOYMENT AGREEMENT

THIS SIXTH AMENDMENT TO EMPLOYMENT AGREEMENT, is made and entered into as of the 19th day of November, 2001, by and between MIKOHN GAMING CORPORATION ("MIKOHN") and CHARLES H. McCREA, JR. ("Employee").

W I T N E S S E T H:

WHEREAS, MIKOHN and Employee deem it to be in their respective best interests to amend that certain Employment Agreement entered into as of May 1, 1994, as amended, between MIKOHN and Employee (the "Agreement").

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements contained herein, it is hereby agreed as follows:

1. The term of employment specified in Section 1 shall be extended to December 31, 2006.

2. Section 5(a) shall be amended to add the following:

Calendar Year -----	Base Salary -----
2002	\$335,000
2003	\$355,000
2004	\$375,000
2005	\$395,000
2006	\$415,000

3. Section 6(g) shall be amended to read:

g. Compensation After Termination of Employment. Except as

set forth in this Section 6(g), this Agreement may not be terminated by MIKOHN without good cause. Upon termination of employment by Employee or for good cause, Employee's compensation provided herein shall cease and terminate without any further right of Employee to any further compensation or consideration by reason of his employment with MIKOHN hereunder. Employee may be terminated without good cause only with the approval of the President and the Chairman of the Board of Directors. In the event Employee is terminated without good cause, Employee's stock option rights shall remain in full force and effect and, in addition, MIKOHN shall pay to Employee the greater of [1] a sum equal to Employee's Base Salary for the most recent calendar year or [2] a sum equal to the Base Salary payable to Employee over the remaining term of this Agreement. Any sum payable under this Section shall be paid in full upon the effective date of the termination of the employment relationship between MIKOHN and Employee. Upon the expiration of this Agreement without renewal by MIKOHN, MIKOHN shall pay to Employee a sum equal to Employee's Base Salary for the most recent calendar year.

Said sum shall be paid in full upon the effective date of the termination of the employment relationship between MIKOHN and Employee. Except as provided, in this Section 6(g) Employee expressly waives all rights and remedies, legal and equitable, arising from or related to any alleged breach of this Agreement by MIKOHN.

IN WITNESS WHEREOF, the parties hereto have read, understood, and voluntarily executed this Sixth Amendment to Employment Agreement as of the day and year first above written.

EMPLOYEE

/s/ Charles H. McCrea

CHARLES H. MCCREA, JR.

MIKOHN GAMING CORPORATION

By: /s/ David J. Thompson

Its: Chairman of the Board,
President

FIFTH AMENDMENT TO EMPLOYMENT AGREEMENT

THIS FIFTH AMENDMENT TO EMPLOYMENT AGREEMENT, is made and entered into as of the 19th day of November, 2001, by and between MIKOHN GAMING CORPORATION ("MIKOHN") and DONALD W. STEVENS ("Employee").

W I T N E S S E T H:

WHEREAS, MIKOHN and Employee deem it to be in their respective best interests to amend that certain Employment Agreement, as amended, entered into as of June 10, 1996, between MIKOHN and Employee (the "Agreement").

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements contained herein, it is hereby agreed as follows:

1. The term of employment specified in Section 1 shall be extended to December 31, 2006.

2. The following shall be added as Section 6(f):

f. Compensation After Termination of Employment. Except as

set forth in this Section 6(f), this Agreement may not be terminated by MIKOHN without good cause. Upon termination of employment by Employee or for good cause, Employee's compensation provided herein shall cease and terminate without any further right of Employee to any further compensation or consideration by reason of his employment with MIKOHN hereunder. Employee may be terminated without good cause only with the approval of the President and the Chairman of the Board of Directors. In the event Employee is terminated without good cause, Employee's stock option rights shall remain in full force and effect and, in addition, MIKOHN shall pay to Employee the greater of [1] a sum equal to Employee's Base Salary for the most recent calendar year or [2] a sum equal to the Base Salary payable to Employee over the remaining term of this Agreement. Any sum payable under this Section shall be paid in full upon the effective date of the termination of the employment relationship between MIKOHN and Employee. Upon the expiration of this Agreement without renewal by MIKOHN, MIKOHN shall pay to Employee a sum equal to Employee's Base Salary for the most recent calendar year. Said sum shall be paid in full upon the effective date of the termination of the employment relationship between MIKOHN and Employee. Except as provided, in this Section 6(f) Employee expressly waives all rights and remedies, legal and equitable, arising from or related to any alleged breach of this Agreement by MIKOHN.

IN WITNESS WHEREOF, the parties hereto have read, understood,
and voluntarily executed this Fifth Amendment to Employment Agreement as of the
day and year first above written.

EMPLOYEE

/s/ Donald W. Stevens

DONALD W. STEVENS

MIKOHN GAMING CORPORATION

By /s/ Charles H. McCrea

Title: Secretary

Date:_____

Date:_____

EIGHTH AMENDMENT TO EMPLOYMENT AGREEMENT

THIS EIGHTH AMENDMENT TO EMPLOYMENT AGREEMENT, is made and entered into as of the 19th day of November, 2001, by and between MIKOHN GAMING CORPORATION ("MIKOHN") and DAVID J. THOMPSON ("Employee").

W I T N E S S E T H:

WHEREAS, MIKOHN and Employee deem it to be in their respective best interests to amend that certain Employment Agreement, as amended, entered into as of October 17, 1988, between MIKOHN and Employee (the "Agreement").

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements contained herein, it is hereby agreed as follows:

1. Section 4 of the Agreement shall be deleted in its entirety and replaced with the following:

4. Term. This Agreement shall commence on the effective

date and shall expire on December 31, 2006.

2. The schedule set forth in Section 5 shall be amended to show:

Calendar Year	Base Salary
-----	-----
2002	\$435,000
2003	\$455,000
2004	\$475,000
2005	\$495,000
2006	\$515,000

3. The last sentence of Section 11 shall be deleted and replaced with the following:

Upon the termination of this Agreement by MIKOHN without good cause, MIKOHN shall pay to Employee the sum of \$1,000,000 plus the greater of [1] a sum equal to Employee's Base Salary for the most recent calendar year or [2] a sum equal to the Base Salary payable to Employee over the remaining term of this Agreement. Any sum payable under this Section shall be paid in full upon the effective date of the termination of the employment relationship between MIKOHN and Employee. Upon the expiration of this Agreement without renewal by MIKOHN, MIKOHN shall pay to Employee a sum equal to Employee's Base Salary for the most recent calendar year. Said sum shall be paid in full upon the effective date of the termination of the employment relationship between MIKOHN and Employee.

IN WITNESS WHEREOF, the parties hereto have read, understood, and voluntarily executed this Eighth Amendment to Employment Agreement as of the day and year first above written.

EMPLOYEE

/s/ David J. Thompson

DAVID J. THOMPSON

Date:_____

MIKOHN GAMING CORPORATION

By: /s/ Charles H. McCrea

Title: Secretary

Date:_____

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("AGREEMENT"), is made and entered into as of August 31, 1998 by and between MIKOHN GAMING CORPORATION, a Nevada corporation ("MIKOHN"), and OLAF VANCURA ("Employee").

W I T N E S S E T H:

WHEREAS, MIKOHN and Employee deem it to be in their respective best interests to enter into an agreement providing for MIKOHN's employment of Employee pursuant to the terms herein stated.

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements contained herein, it is hereby agreed as follows:

_.1 Term. MIKOHN hereby employs and Employee hereby accepts

employment with MIKOHN for a period of three (3) years beginning on October 15, 1998 ("Initial Term"). Unless MIKOHN or Employee gives written notice that this Agreement shall be allowed to expire and the employment relationship thereby terminated at least thirty (30) days prior to the expiration of the Initial Term, this Agreement shall continue in effect from month to month after the expiration of the Initial Term and shall be terminable by either party upon thirty (30) days' written notice. (The Initial Term and the period during which this Agreement may remain in effect thereafter are collectively referred to herein as the "Term".)

_.2 Duties of Employee. Employee's position with MIKOHN will be

Director - Gaming Products. Employee shall do and perform all services, acts, or things reasonably necessary or advisable to accomplish the objectives and complete the tasks assigned to Employee by senior management of MIKOHN. MIKOHN may assign Employee to another position commensurate with Employee's training and experience so long as the compensation paid to Employee is equal to or greater than the compensation provided in this Agreement. MIKOHN shall provide Employee with a computer and other office equipment as specified by Employee and deemed necessary by MIKOHN for Employee's use in performing his duties hereunder. All such equipment shall remain the property of MIKOHN and shall be returned to MIKOHN in good order and repair upon the termination of this Agreement for any reason.

_.3 Devotion of Time to MIKOHN's Business. Employee shall be a

full-time employee of MIKOHN and shall devote such substantial and sufficient amounts of Employee's productive time, ability, and attention to the business of MIKOHN during the Term of this Agreement as may be reasonable and necessary to accomplish the objectives and complete the tasks assigned to Employee. Prior written consent of MIKOHN shall be required before Employee shall undertake to perform any outside services of a business, commercial, or professional nature, whether for compensation or otherwise. Written consent shall not be required as to Employee's reasonable participation in educational and professional activities related to the maintenance of Employee's qualifications and stature in Employee's profession. Any other provision in this Agreement to the contrary notwithstanding, Employee shall be permitted [1] to lecture, give talks and symposia, publish books, technical papers and other

writings during the term of this Agreement and shall be permitted to retain all royalties and other compensation earned as a result thereof and [2] Employee shall be permitted to provide consulting services to third parties approved by MIKOHN and shall be permitted to retain 50% of any consulting fees earned as a result thereof with the balance of such fees going to MIKOHN. During the term of this Agreement, Employee shall be based in Las Vegas, Nevada or at some other location mutually agreed by the parties.

_.4 Uniqueness of Services. Employee hereby acknowledges that the

services to be performed by Employee's under the terms of this Agreement are of a special and unique value. Accordingly, the obligations of Employee under this Agreement are non-assignable.

_.5 Compensation of Employee.

_.5.1 Base Annual Salary. Subject to other specific

provisions in this Agreement, as compensation for services hereunder, Employee shall receive a Base Annual Salary at the rate of not less than \$150,000 per annum.

_.5.2 Minimum Advance Royalties. In addition to all other

compensation payable under this Agreement, MIKOHN shall pay to Employee an annual sum ("Advance Royalties") equal to \$30,000 plus any royalties paid by Employee to Ken Perrie for Wild Aruba Stud and "knowledge-based" inventions in which Ken Perrie is considered a co-inventor. Advance Royalties shall be payable bi-weekly and shall be credited against any past or future royalties owed under Section 5.5 below. All Advance Royalties payable hereunder shall be non-refundable. The foregoing notwithstanding, MIKOHN shall not receive credit for any Advance Royalties paid against future royalties owed in excess of \$90,000.

_.5.3 Annual Review. MIKOHN agrees to review the salary of

Employee annually during the term of this Agreement. MIKOHN, in its sole discretion, may increase Employee's salary dependent upon various factors which include without limitation Employee's performance, the compensation paid to similarly situated employees of businesses similar in type and size to MIKOHN, the financial condition of MIKOHN, and the economic and market conditions to which MIKOHN is or may be subject.

_.5.4 Stock Options. MIKOHN grant's to Employee options to

purchase shares of MIKOHN Common Stock (the "Option") under MIKOHN's Stock Option Plan ("Plan"). The Option shall be in the form of MIKOHN's standard Stock Option Agreement and subject to the terms and conditions thereof and of the Plan, and shall additionally provide as follows:

_.5.4.1 The number of shares subject to the Option shall be 20,000.

_.5.4.2 The purchase price per share shall be the closing price of MIKOHN common stock on the Effective Date to wit \$4.063.

_.5.4.3 The Option shall be designated as an Incentive Option.

_.5.4.4 On each of the next five (5) anniversary dates of the Effective Date,

one-fifth (1/5) of the Option Shares shall become eligible for purchase by Employee.

__5.4.5 The Option shall terminate on (i) the expiration date specified in the Stock Option Agreement or (ii) such earlier date as termination may occur according to the terms and conditions of the Plan and/or the Stock Option Agreement. Upon termination for any reason, Employee and/or his successors and assigns shall have only such rights as are specified in the Plan and the Stock Option Agreement, and shall not be entitled to any compensation in any form for the loss of any other right.

__5.4.6 The parties acknowledge that the Option granted under this Agreement is in addition to an earlier Option grant of 20,000 shares.

__5.5 Additional Stock Options. During the term of this Agreement, Employee may be granted additional stock options. The decision to grant stock options and the amount thereof shall be within the sole and absolute discretion of MIKOHN and shall be based on various factors which include without limitation Employee's performance, the compensation paid to similarly situated employees of businesses similar in type and size to MIKOHN, the financial condition of MIKOHN, and the economic and market conditions to which MIKOHN is or may be subject.

__5.6 Royalty. MIKOHN shall pay to Employee a royalty equal to 7.5% of gross profits generated by any game which is the original creation of Employee and to which MIKOHN is assigned exclusive worldwide rights.

__5.7 Relocation Expenses. MIKOHN will reimburse Employee for the following relocation expenses:

__5.7.1 Moving company charges for packing, moving and unpacking household items including insurance (Employee to provide three (3) bids);

__5.7.2 Temporary residence in Las Vegas for up to 60 days (cost not to exceed \$3,000); and

__5.7.3 Cost of storage for up to 60 days for household items, if needed.

__5.8 Employee Benefits. Employee shall receive such benefits, fringe benefits and entitlements as is usual and customary for MIKOHN to provide an employee of like status and position and are consistent with MIKOHN's established policies on employment, which may be revised from time to time in the sole discretion of MIKOHN. MIKOHN hereby waives the 90-day eligibility requirement for Employee and Employee's family members to be covered by MIKOHN's medical plan.

__5.9 Travel and Business Expenses. MIKOHN will reimburse Employee for reasonable travel and other business expenses incurred in performing Employee's duties and promoting the business of MIKOHN during the term of this Agreement.

__5.10 Effect of Merger or Consolidation. Any other

provision in this Agreement to the contrary notwithstanding, all Options to acquire common stock of MIKOHN granted to Employee during the term of this Agreement shall become 100% vested upon (i) any merger or consolidation involving MIKOHN if MIKOHN is not the surviving corporation; (ii) any transfer of all or substantially all of the assets of MIKOHN; (iii) any voluntary or involuntary dissolution of MIKOHN; (iv) any material change in ownership of MIKOHN which results in a change of a majority of the Board of Directors; (v) if MIKOHN or any successor or assignee of MIKOHN should terminate this Agreement without cause; or (vi) Employee's death or permanent disability.

__6 Termination of Employment.

__6.1 Employee may terminate this Agreement at any time with or without stated cause upon thirty (30) days written notice.

__6.2 MIKOHN may terminate this Agreement at any time with or without stated cause upon the payment to Employee of a sum equal to Employee's Base Annual Salary as specified in Section 5.1 above.

__6.3 For just cause MIKOHN may terminate this Agreement immediately at any time without further liability to Employee by giving written notice of termination to Employee.

__6.4 Termination for any of the reasons set forth in this Section 6.4 shall be deemed termination for just cause. For purposes of this Agreement, just cause includes the following: [1] commission of a crime involving moral turpitude; [2] engaging in any act of dishonesty or material insubordination; [3] material breach of this Agreement; [4] habitual neglect of duties which Employee is required to perform under the terms of this Agreement; [5] failure of Employee to act in a professional manner; [6] failure of Employee to timely and successfully complete work assigned; [7] failure of Employee to observe all employment policies of MIKOHN; or [8] any other reason which is legally sufficient under the laws of the State of Nevada

__6.5 MIKOHN may terminate this Agreement if it appears in the reasonable judgment of MIKOHN that due to Employee's employment by MIKOHN:

__6.5.1 MIKOHN may be subjected to significant disciplinary action or lose or become unable to obtain or reinstate any federal, state and/or foreign registration, license or approval material to MIKOHN's business or the business of any MIKOHN subsidiary; or

__6.5.2 MIKOHN or any key employee, officer, director or shareholder of MIKOHN required to qualify or be found suitable under any gaming law may not so qualify or be found suitable.

__6.6 MIKOHN may terminate this Agreement if Employee solicits or accepts any payment or gratuity from any existing or potential customer or supplier of MIKOHN without the prior written consent of the President of MIKOHN.

_.6.7 MIKOHN may terminate this Agreement if Employee has made any misrepresentation of fact or has failed to disclose any fact which might be material to MIKOHN's decision to enter into this Agreement including, without limitation, failure to disclose any criminal or civil fraud charges brought against Employee at any time or failure to disclose a prior business or personal bankruptcy action involving Employee.

_.6.8 This Agreement shall terminate automatically in the event that: (i) Employee fails or is unable to perform Employee's duties due to injury, illness or other incapacity for ninety (90) days in any twelve (12) month period (except that Employee may be entitled to disability payments pursuant to MIKOHN's disability plan, if any); or (ii) death of Employee. Upon termination of this Agreement as a result of Employee's death, all royalties and stock options provided herein shall become the property of Employee's estate.

_.6.9 In the event of a termination of Employee's employment for any reason, Employee shall be required to seek other employment in order to mitigate any damages resulting from the breach of this Agreement.

_.6.10 In the event this Agreement is terminated by Employee and Employee accepts subsequent employment with a college or university, Employee and MIKOHN shall negotiate in good faith a consulting agreement by which Employee will consult with MIKOHN on an exclusive basis in respect to games and game development. The terms of such a consulting agreement will allow Employee to retain the rights to any stock options granted during the term of this Agreement under Section 5.4 and 5.5 above.

_.7 Covenant of Confidentiality. All documents, records, files, manuals, forms, materials, supplies, computer programs, trade secrets, customer lists, and other information which comes into Employee's possession from time to time during Employee's employment by MIKOHN, and/or any of MIKOHN's subsidiaries or affiliates, shall be deemed to be confidential and proprietary to MIKOHN and shall remain the sole and exclusive property of MIKOHN. Employee acknowledges that all such confidential and proprietary information is confidential and proprietary and not readily available to MIKOHN's business competitors. On the effective date of the termination of the employment relationship or at such other date specified by MIKOHN, Employee agrees that Employee will return to MIKOHN all such confidential and proprietary items (including, but not limited to, company badge and keys) in Employee's control or possession, and all copies thereof, and that Employee will not remove any such items from the offices of MIKOHN. It is the intention of the parties that the broadest possible protection be given to MIKOHN's trade secrets and proprietary information and nothing in this Section 7 shall in any way be construed to narrow or limit the protection and remedies afforded by the Uniform Trade Secrets Act.

_.8 Covenant of Non-Disclosure. Without the prior written approval of MIKOHN, Employee shall keep confidential and not disclose or otherwise make use of any of the confidential or proprietary information or trade secrets referred to in Section 7 nor reveal the same to any third party whomsoever, except as required by law.

_.9 Covenant of Non-Solicitation.

_.9.1 Employees. During the Term of this Agreement and for

a period of two (2) years following the effective date of termination of the employment relationship, Employee, either on Employee's own account or for any person, firm, company or other entity, shall not solicit, interfere with or induce, or attempt to induce, any employee of MIKOHN, or any of its subsidiaries or affiliates to leave their employment or to breach their employment agreement, if any, with MIKOHN.

_.9.2 Customers. During the Term of this Agreement and for

a period the longer of (i) one (1) year following the effective date of termination of the employment relationship or (ii) the time the Covenant Against Competition (defined below) remains in effect, Employee, either on Employee's own account or for any person, firm, company or other entity, shall not solicit or induce, or attempt to induce, any customer of MIKOHN to purchase any products or services which compete with any products or services offered by MIKOHN at the time of the termination of the employment relationship. The foregoing notwithstanding, nothing herein shall be construed to prohibit selling or licensing any Excluded Inventions (defined below) to any customer of MIKOHN; provided, however, MIKOHN shall be granted first right of refusal with respect to any rights in the Excluded Inventions presently held by Employee.

_.10 Covenant of Cooperation. Employee agrees to cooperate with

MIKOHN in any litigation or administrative proceedings involving any matters with which Employee was involved during Employee's employment by MIKOHN. MIKOHN shall reimburse Employee for reasonable expenses incurred in providing such assistance.

_.11 Covenant Against Competition.

_.11.1 Scope and Term. During the Term of this Agreement and

for an additional period after the expiration or termination of the employment relationship between MIKOHN and Employee, which period shall be the shorter of (i) the number of days Employee has been employed by MIKOHN or (ii) six (6) months (the "Initial Non-Compete Term"), Employee shall not directly or indirectly engage in or become a partner, officer, principal, employee, consultant, investor, creditor or stockholder of any business, proprietorship, association, firm, corporation or any other business entity which is engaged or proposes to engage or hereafter engages in any business which competes with the business of MIKOHN and/or any of MIKOHN's subsidiaries or affiliates in any geographic area in which MIKOHN conducts business at the time of the termination or expiration of the employment relationship. Notwithstanding the foregoing, nothing contained herein shall prevent Employee from [i] engaging in a business or accepting employment with a business which does not sell to the gaming industry; [ii] providing consulting services for casinos and other gaming operators (not including manufacturers or distributors of gaming devices or associated gaming equipment); [iii] selling or licensing any Excluded Inventions (defined below) to any customer of MIKOHN (provided, however, MIKOHN shall be granted first right of refusal with respect to any rights in the Excluded Inventions presently held by Employee); [iv] lecturing, giving talks and symposia, publishing books, technical papers and other writings; [vi], after the termination of this Agreement, accepting a faculty position with any

college or university; [vii], after the termination of this Agreement, consulting for independent game developers approved by MIKOHN who are not affiliated with any competitor of MIKOHN.

_.11.2 Option to Extend Term. After the expiration of the

Initial Non-Compete Term, in consideration of the Supplemental Payments provided in subsection 11.3 below, MIKOHN shall have the option of extending the term of this Covenant for an additional period ending the earlier of (i) one (1) year following the effective date of the termination or expiration of the employment relationship, or (ii) the date MIKOHN discontinues the supplemental payments specified in subsection 11.3 below. To exercise this option, MIKOHN shall provide written notice to Employee on or before fifteen (15) days prior to the expiration of the ninety (90) day term specified in subsection 11.1 above.

_.11.3 Supplemental Payments. After the expiration of the

Initial Non-Compete Term, and so long as MIKOHN desires this Covenant Against Competition to remain in full force (not to exceed a period of one (1) year from the effective date of termination), MIKOHN shall pay to Employee:

_.11.3.1 Upon termination without cause pursuant to Section 6.2 above or upon expiration of this Agreement pursuant to Section 1 above, a sum each month equal to thirty three and one-third percent (33 1/3%) of Employee's Base Monthly Salary; or

_.11.3.2 Upon termination by Employee, a sum each month equal to twenty-five percent (25%) of Employee's Base Monthly Salary; or

_.11.3.3 Upon termination for just cause pursuant to Section 6.4 above, a sum each month equal to fifteen percent (15%) of Employee's Base Monthly Salary.

_.11.4 Base Monthly Salary Defined. For purposes of this

Agreement, "Base Monthly Salary" means one-twelfth (1/12) of Employee's Base Annual Salary specified in Section 5.1 above. If there is no Base Annual Salary specified in Section 5.1 or at the time of termination or expiration of this Agreement Employee was not entitled to receive a Base Annual Salary, "Base Monthly Salary" means the average monthly compensation paid to Employee by MIKOHN during the time of his/her employment by MIKOHN.

_.11.5 Acknowledgement. Both parties acknowledge that this

Covenant only restricts employee's re-employment in the gaming industry and does not affect Employee's employment opportunities in the non-gaming industry. Both parties further acknowledge that the employment opportunities in the gaming industry represent only a small fraction of employment opportunities in the non-gaming industry. Employee acknowledges that the scope and term of this Covenant Against Competition are reasonable under the circumstances and the consideration provided by this Agreement is sufficient remuneration for the limited restriction this Covenant imposes on Employee's future employment opportunities.

_.12 Rights to Inventions.

_.12.1 Inventions Defined. "Inventions" means discoveries,

concepts, and ideas,

whether patentable or not, relating to any present or prospective activities of MIKOHN, including without limitation devices, processes, methods, formulae, techniques, and any improvements to the foregoing. Inventions described in Exhibit A attached hereto are excluded from the provisions of this Section 12 ("Excluded Inventions").

_.12.2 Application. This Section 12 shall apply to all

Inventions made or conceived by Employee, whether or not during the hours of Employee's employment or with the use of MIKOHN facilities, materials, or personnel, either solely or jointly with others, during the Term of Employee's employment by MIKOHN and for a period of six (6) months after any termination of such employment.

_.12.3 Assignment. Employee hereby assigns and agrees to

assign to MIKOHN all of Employee's rights to Inventions and to all proprietary rights therein, based thereon or related thereto, including without limitation applications for United States and foreign letters patent and resulting letters patent.

_.12.4 Reports. Employee shall inform MIKOHN promptly and

fully of each Invention by a written report, setting forth in detail the structures, procedures, and methodology employed and the results achieved ("Notice of Invention"). A report shall also be submitted by Employee upon completion of any study or research project undertaken on MIKOHN's behalf, whether or not in the Employee's opinion a given study or project has resulted in an Invention.

_.12.5 Exploitation Rights.

_.12.5.1 MIKOHN. After receipt of a Notice of

Invention, MIKOHN shall have six (6) months to elect to exploit the Invention commercially. If MIKOHN elects to exploit the Invention commercially, MIKOHN shall so notify Employee in writing and shall thereafter pay to Employee a royalty equal to 7.5% of the gross profits generated through MIKOHN's exploitation of the Invention. Upon notification to Employee that MIKOHN has elected to exploit the Invention commercially, MIKOHN shall have one (1) year to develop and submit a prototype of the Invention to a regulatory authority for approval and after approval by the regulatory authority shall have an additional one (1) year period to commence commercial exploitation of the Invention. If MIKOHN has not commenced commercial exploitation of the Invention within one (1) year after it has received regulatory approval, the rights to the Invention, subject to Section 12.5.2 below, shall revert to Employee.

_.12.5.2 Employee. If MIKOHN does not elect to

exploit the Invention commercially, Employee shall have six (6) months commencing one (1) year after the Notice of Invention is received by MIKOHN to elect to exploit the Invention commercially. If Employee elects to exploit the Invention commercially, he shall so notify MIKOHN in writing and shall (i) within thirty (30) days and shall thereafter pay to MIKOHN a royalty equal to 10% of the gross profits generated through Employee's exploitation of the Invention.

_.12.6 Patents. At MIKOHN's request and expense, Employee

shall execute such documents and provide such assistance as may be deemed necessary by MIKOHN to apply for, defend or enforce any United States and foreign letters patent based on or related to such

Inventions.

_.13 Remedies. Notwithstanding any other provision in this

Agreement to the contrary, Employee acknowledges and agrees that if Employee commits a material breach of the Covenant of Confidentiality (Section 7), Covenant of Non-Disclosure (Section 8), Covenant of Non-Solicitation (Section 9), Covenant of Cooperation (Section 10), Covenant Against Competition (Section 11), or Rights to Inventions (Section 12), MIKOHN shall have the right to have the obligations of Employee specifically enforced by any court having jurisdiction on the grounds that any such breach will cause irreparable injury to MIKOHN and money damages will not provide an adequate remedy. Such equitable remedies shall be in addition to any other remedies at law or equity, all of which remedies shall be cumulative and not exclusive. Employee further acknowledges and agrees that the obligations contained in Sections 7 through 12, of this Agreement are fair, do not unreasonably restrict Employee's future employment and business opportunities, and are commensurate with the compensation arrangements set out in this Agreement.

_.14 Survivability. Sections 7 through 13, of this Agreement

shall survive termination of the employment relationship and this Agreement.

_.15 General Provisions.

_.15.1 Arbitration. Any controversy involving the

construction, application, enforceability or breach of any of the terms, provisions, or conditions of this Agreement, including without limitation claims for breach of contract, violation of public policy, breach of implied covenant, intentional infliction of emotional distress or any other alleged claims which are not settled by mutual agreement of the parties, shall be submitted to final and binding arbitration in accordance with the rules of the American Arbitration Association at Las Vegas, Nevada. The cost of arbitration shall be borne by the losing party. In consideration of each party's agreement to submit to arbitration any and all disputes that arise under this Agreement, each party agrees that the arbitration provisions of this Agreement shall constitute his/its exclusive remedy and each party expressly waives the right to pursue redress of any kind in any other forum. The parties further agree that the arbitrator acting hereunder shall not be empowered to add to, subtract from, delete or in any other way modify the terms of this Agreement. Notwithstanding the foregoing, any party shall have the limited right to seek equitable relief in the form of a temporary restraining order or preliminary injunction in a court of competent jurisdiction to protect itself from actual or threatened irreparable injury resulting from an alleged breach of this Agreement pending a final decision in arbitration.

_.15.2 Attorneys' Fees and Costs. If any action in law,

equity, arbitration or otherwise is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs (including fees incurred for paralegals, investigators, expert witnesses, etc.), and necessary disbursements in addition to any other relief to which he/it may be entitled. The term "prevailing party" means the party obtaining substantially the relief sought, whether by compromise, settlement, award or judgment.

_.15.3 Authorization. MIKOHN and Employee each represent and

warrant to the

other that he/she/it has the authority, power and right to deliver, execute and fully perform the terms of this Agreement.

__15.4 Entire Agreement. Employee understands and

acknowledges that this document constitutes the entire agreement between Employee and MIKOHN with regard to Employee's employment by MIKOHN and Employee's post-employment activities concerning MIKOHN. This Agreement supersedes any and all other written and oral agreements between the parties with respect to the subject matter hereof. Any and all prior agreements, promises, negotiations, or representations, either written or oral, relating to the subject matter of this Agreement not expressly set forth in this Agreement are of no force and effect. This Agreement may be altered, amended, or modified only in writing signed by all of the parties hereto. Any oral representations or modifications concerning this instrument shall be of no force and effect.

__15.5 Severability. If any term, provision, covenant, or

condition of this Agreement is held by a court or other tribunal of competent jurisdiction to be invalid, void, or unenforceable, the remainder of such provisions and all of the remaining provisions hereof shall remain in full force and effect to the fullest extent permitted by law and shall in no way be affected, impaired, or invalidated as a result of such decision.

__15.6 Governing Law. Except to the extent that federal law

may preempt Nevada law, this Agreement and the rights and obligations hereunder shall be governed, construed and enforced in accordance with the laws of the State of Nevada.

__15.7 Taxes. All compensation payable hereunder is gross

and shall be subject to such withholding taxes and other taxes as may be provided by law. Employee shall be responsible for the payment of all taxes attributable to the compensation provided by this Agreement except for those taxes required by law to be paid or withheld by MIKOHN.

__15.8 Assignment. This Agreement shall be binding upon and

inure to the benefit of the successors and assigns of MIKOHN. Employee may not sell, transfer, assign, or pledge any of Employee's rights or interests pursuant to this Agreement.

__15.9 Waiver. Either party's failure to enforce any

provision or provisions of this Agreement shall not in any way be construed as a waiver of any such provision or provisions, or prevent that party thereafter from enforcing such provision or provisions and each and every other provision of this Agreement.

__15.10 Captions. Titles and headings to sections in this

Agreement are for the purpose of reference only and shall in no way limit, define, or otherwise affect any provisions contained therein.

__15.11 Breach - Right to Cure. A party shall be deemed in

breach of this Agreement only upon the failure to perform any obligation under this Agreement after receipt of written notice of breach and failure to cure such breach within ten (10) days thereafter; provided, however, such notice shall not be required where a breach or threatened breach would cause irreparable harm to the other party and such other party may immediately seek equitable relief in

a court of competent jurisdiction to enjoin such breach.

_.16 Acknowledgement. Employee acknowledges that Employee has been

given a reasonable period of time to study this Agreement before signing it. Employee certifies that Employee has fully read, has received an explanation of, and completely understands the terms, nature, and effect of this Agreement. Employee further acknowledges that Employee is executing this Agreement freely, knowingly, and voluntarily and that Employee's execution of this Agreement is not the result of any fraud, duress, mistake, or undue influence whatsoever. In executing this Agreement, Employee does not rely on any inducements, promises, or representations by MIKOHN other than the terms and conditions of this Agreement.

_.17 Effective Only Upon Execution by Authorized Officer of MIKOHN.

This Agreement shall have no force or effect and shall be unenforceable in its entirety until (i) it is approved by the Compensation Committee and Board of Directors of MIKOHN and (ii) it is executed by a duly authorized officer of MIKOHN and such executed Agreement is delivered to Employee.

_.18 Agreement Subject to Satisfactory Background Investigation.

Employee understands and acknowledges that Employee's employment is subject to the satisfactory conclusion of a background investigation. Any other provision in this Agreement to the contrary notwithstanding, MIKOHN may terminate this Agreement without further obligation or liability to Employee if a background investigation of Employee reveals information which, in the reasonable judgment of MIKOHN, (i) would materially interfere with, impede or impair the efficient and effective performance of Employee's duties under this Agreement or (ii) could subject MIKOHN to significant disciplinary action or cause MIKOHN to lose or become unable to obtain or reinstate any federal, state and/or foreign registration, license or approval material to MIKOHN's business or the business of any MIKOHN subsidiary.

.

.

IN WITNESS WHEREOF, the parties hereto have read, understood, and voluntarily executed this Agreement as of the day and year first above written.

EMPLOYEE

MIKOHN GAMING CORPORATION

/s/ Olaf Vancura

By: /s/ Charles H. McCrea

OLAF VANCURA

Title: Secretary

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT TO EMPLOYMENT AGREEMENT, is made and entered into as of the 15th day of November 2001, by and between MIKOHN GAMING CORPORATION ("MIKOHN") and OLAF VANCURA ("Employee").

W I T N E S S E T H:

WHEREAS, MIKOHN and Employee deem it to be in their respective best interests to amend that certain Employment Agreement entered into as of August 31, 1998, between MIKOHN and Employee (the "Agreement").

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements contained herein, it is hereby agreed as follows:

1. Section 1 of the Agreement shall be amended to extend the term of the Agreement by one (3) years reading as follows:

Term. The term of this Agreement shall commence on

the date hereof and extend to October 15, 2004 ("Term"). Unless MIKOHN or Employee gives written notice that this Agreement shall be allowed to expire and the employment relationship thereby terminated at least thirty (30) days prior to the expiration of the Term, this Agreement shall continue in effect from month to month after the expiration of the Term and shall be terminable by either party upon thirty (30) days' written notice.

2. The first sentence of Section 2 of the Agreement shall be deleted and replaced with the following: "Employee's position with MIKOHN will be Vice President - Games Development."

3. Section 5.1 of the Agreement shall be amended to read as follows:

Base Annual Salary. Subject to other specific

provisions in this Agreement, as compensation for services hereunder, Employee shall receive a Base Annual Salary at the rate of not less than \$185,000 per annum.

4. Section 5.2 of the Agreement shall be deleted.

5. MIKOHN hereby acknowledges that the royalties payable under Sections 5.6 and/or 12 of the Agreement will extend beyond the termination or expiration of the Agreement for so long as the game to which they are attributable is used by MIKOHN.

IN WITNESS WHEREOF, the parties hereto have read, understood,
and voluntarily executed this First Amendment to Employment Agreement as of the
day and year first above written.

EMPLOYEE

MIKOHN GAMING CORPORATION

/s/ Olaf Vancura

By: /s/ Charles H. McCrea

OLAF VANCURA

Title: Secretary

Date:_____

Date:_____

GAMECRAFT, INC.
SECURED CONVERTIBLE DEBENTURE

\$1,500,000

March 11, 2002

Las Vegas, Nevada

Gamecraft, Inc., a Nevada corporation (hereinafter referred to as the "Company"), for value received, hereby promises to pay to Mikohn Gaming Corporation, a Nevada corporation, 920 Pilot Road, P.O. Box 98686, Las Vegas, Nevada 89193-8686, or to its successors and assigns (hereinafter referred to as "Holder" or "Mikohn"), the principal sum of One Million Five Hundred Thousand Dollars (\$1,500,000) in lawful money of the United States of America, plus simple interest on the unpaid principal balance of this debenture at an annual rate of ten percent (10%). All principal and accrued interest shall be due and payable three (3) years from the date hereof. Any payment made by the Company shall be applied first to the payment of accrued interest and then to the unpaid principal balance.

The Company covenants and agrees that so long as any portion of this debenture remains outstanding and unpaid either as to the principal hereof or the interest hereon, it will comply with the following provisions, to which this debenture is subject and by which it will be governed:

1. Acceleration of Maturity. Upon the occurrence of any of the following events, to-wit:

- (a) Nonpayment within ten (10) days after the Company's receipt of written notice that the Company has defaulted in the payment of any of the principal or of any interest on this debenture;
- (b) Any receivership, insolvency proceeding, bankruptcy, assignment for the benefit of creditors, reorganization, whether or not pursuant to bankruptcy laws, dissolution, liquidation or any other marshalling of assets and liabilities of the Company;
- (c) The Company's failure to cure any material breach of this debenture by the Company within ten (10) days after the Company has received written notice of such breach;
- (d) The Company's failure to cure any material non-compliance by the Company with the covenants contained in this debenture within ten (10) days after the Company has received written notice of such non-compliance;
- (e) Ten (10) days after the Company's receipt of written demand for payment following the closing of the Company's registered initial public offering of its common stock ("IPO"); or

- (f) Ten (10) days after the Company's receipt of written notice that Mikohn has achieved an installed base of 500 games under the License Agreement of even date hereof between the Company and Mikohn ("License Agreement") but not earlier than two (2) years from the date hereof; provided, however, if Mikohn does not attain regulatory approval of the Game (as defined in the License Agreement) within fifteen (15) months from the date hereof, this clause 1(f) shall have no force or effect.

the Holder may declare the entire principal and accrued interest on this debenture due and payable immediately, and upon such declaration this debenture shall become immediately due and payable without further notice, demand or presentment.

The Company agrees to pay all reasonable costs of collection, including reasonable attorneys' fees, in the event that payment shall not be made under the terms and conditions of this debenture.

2. Security Agreement. This debenture will be secured by

a security agreement (the "Security Agreement") collateralized by the intellectual property comprising a video poker game known as "Heads Up Poker" (the "Intellectual Property"). The Security Agreement will be in the form of Exhibit A attached hereto. At any time prior to the full repayment of this debenture, the Company can require the Holder to release its security interest in the collateral by delivering to the Holder a standby letter of credit from a bank and in a form reasonably acceptable to the Holder guarantying repayment of this debenture in accordance with its terms.

3. Conversion Option. At any time during the term of

this debenture, Holder shall have the option of exercising its conversion rights as set forth in Section 4.

4. Conversion Rights. This debenture shall be

convertible, in whole or in part, into fully paid and nonassessable shares of common stock of the Company, at the option of Holder, upon the following terms:

- (a) Subject to the receipt of prior approval from the Mississippi Gaming Commission and any other gaming regulatory body whose approval is required, as reasonably determined by counsel for the Company, Holder shall have the right, at its option, to convert all or part of the principal and accrued interest due under this debenture (the "Indebtedness") into shares of common stock of the Company at a price, which shall be the lower of, [i] two and 33/100 dollars (\$2.33) per share or [ii] the lowest price paid by any person to purchase shares of common stock in the Company, through conversion of debt or otherwise, after the date hereof.
- (b) To convert this debenture into shares of the Company's common stock, Holder shall (i) surrender this debenture at the principal office of the Company, duly endorsed in blank, and (ii) give written notice to the

Company that it elects to convert all, or any part of this debenture, which notice shall specify the portion hereof to be converted. As promptly as possible thereafter, the Company shall issue and deliver to Holder certificates representing the number of its common shares into which this debenture has been converted. Thereupon, accrued interest and the principal amount of this debenture, or the portion thereof converted, shall be deemed to have been satisfied and discharged, and the common shares into which this debenture shall be so converted shall be fully paid and non-assessable shares. In the event this debenture has not been converted in full, the Company shall issue and deliver to Holder a new debenture identical to the one surrendered, except that it shall be in the correct principal amount after the partial conversion.

- (c) The conversion rights created by this debenture are non-assignable without the written consent of the Company. All shares issued upon the exercise of the conversion rights created by this debenture shall be subject to that certain Registration Rights Agreement between Holder and the Company a copy of which is attached as Exhibit B hereto.

5. Transfer and Investment Representation. By acceptance

of this debenture, Holder represents that this debenture is being acquired and will be acquired for Holder's own account for investment and with no intention at the time of such purchase or acquisition of distributing or reselling the same or any part thereof to the public. Holder understands that this debenture has not been registered under the federal Securities Act of 1933 or any state securities laws and that this debenture may not be subsequently transferred or resold without (i) such registration, or (ii) the existence of an exemption from the applicable registration requirements as confirmed in writing by legal counsel reasonably acceptable to the Company. In furtherance of this representation, Holder agrees that this debenture shall be legended to prohibit transfer, sale or other disposition except in compliance with such investment representation.

6. Transfer of Debenture. By acceptance of this

debenture, Holder agrees to give written notice to the Company before transferring this debenture or transferring any shares of the Company's common stock issuable or issued upon the exercise of this debenture of Holder's intention to do so, describing briefly the manner of any proposed transfer of this debenture or Holder's intention as to the shares of common stock issuable upon the exercise hereof or the intended disposition to be made of shares of common stock upon such exercise. Promptly upon receiving such written notice, the Company shall present copies thereof to legal counsel for the Company. If, in the opinion of such counsel, the proposed transfer of this debenture or disposition of shares may be effected without registration or qualification (under any federal or state law) of this debenture or the shares of common stock issuable or issued upon the exercise hereof, the Company, as promptly as practicable, shall notify Holder of such opinion, whereupon Holder shall be entitled to transfer this debenture, or to exercise this debenture in accordance with its terms and dispose of the shares received upon such exercise or to dispose of shares of common stock received upon the previous exercise of this debenture, all in accordance with the terms of the notice

delivered by Holder to the Company, provided that an appropriate legend in substantially the form set forth at the end of this debenture respecting the foregoing restrictions on transfer and disposition may be endorsed on this debenture or the certificates for such shares.

7. Representations, Warranties and Covenants of the

Company. So long as any amount is owing to Holder pursuant to this debenture,

the Company covenants and agrees with Holder as follows:

- (a) On the date above first written, the Company shall be a corporation duly organized and existing under the laws of Nevada, with authorized capital stock consisting of 10,000,000 shares of common stock, no par value.
- (b) The Company has the corporate power and authority to execute, deliver and perform this debenture, and the other instruments and documents required or contemplated herein. Such execution, delivery and performance have been duly authorized by all necessary action on the part of the Company, do not and will not require the approval of the shareholders of the Company and do not and will not contravene the Certificate of Incorporation or By-Laws of the Company or conflict with, result in a breach of, or entitle any person or entity to terminate, accelerate or call a default with respect to, or result in the creation or imposition of any lien, charge, encumbrance or claim of any nature whatsoever upon any of the property, real or personal, tangible or intangible, of the Company pursuant to, any agreement or instrument to which the Company is a party or by which the Company is bound, except for any lien, charge, encumbrance or claim that individually or in the aggregate does not or will not have a material adverse affect on the business or assets of the Company. The execution, delivery and performance of this debenture by the Company will not result in any violation by the Company of any law, rule or regulation applicable to the Company. The Company is not a party to, or subject to or bound by, any judgment, injunction or decree of any court or governmental authority which may restrict or interfere with the performance of this debenture. The debenture is valid and binding obligation of the Company enforceable in accordance with its terms.
- (c) The Company is not a party to or, to the Company's knowledge, threatened by any litigation, proceeding, or controversy before any court or administrative agency which might materially adversely affect the transactions contemplated by this debenture.
- (d) Within thirty (30) days after the end of each fiscal quarter, the Company shall deliver to Holder unaudited financial statements (consisting of a balance sheet and a statement of receipts and expenditures) for such fiscal quarter, which financial statements shall be certified as correct by the chief financial officer of the Company.

- (e) Within ninety (90) days after the end of each fiscal year, the Company shall deliver to Holder a copy of its financial statements for such fiscal year, which financial statements shall have been audited by certified public accountants at the Company's expense.
- (f) The Company shall make available to an authorized representative of Holder the right to enter the business premises of the Company during normal business hours, upon reasonable prior notice to the Company, for the purpose of inspecting the books and records of the Company; provided, however, that any information obtained by Holder as a result of such inspection shall be maintained by Holder as confidential information of the Company and shall not be used or disclosed by Holder for any purpose without the prior written consent of the Company;
- (g) The Company shall reserve and set aside a sufficient number of authorized shares of its common stock for issuance to Holder upon the exercise of the conversion rights contained in this debenture;
- (h) The Company shall not, without the prior approval of Holder, authorize any class of capital stock other than the shares currently authorized by the Company's articles of incorporation;
- (i) The Company shall not, without the prior approval of Holder, declare or issue any dividends on its capital stock, other than dividends payable solely in shares of the Company's common stock;
- (j) The Company shall not merge or consolidate with or into any other entity (other than a merger with a subsidiary corporation) without the prior approval of Holder;
- (k) Within the last ninety (90) days, the Company has not sold shares of its common stock to any person, through conversion of debt or otherwise, at a price lower than two and 33/100 dollars (\$2.33) per share.

8. Severability. If any term, provision, covenant or

 condition of this debenture, or any application thereof, should be held by a court of competent jurisdiction to be invalid, void, or unenforceable, all provisions, covenants and conditions of this debenture and all applications thereof not held invalid, void or unenforceable, shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby.

9. Notices. All demands and notices to be given

 hereunder shall be delivered or sent by certified mail, return receipt requested; in the case of the Company, addressed to its corporate headquarters, 20422 Beach Boulevard, Suite 335, Huntington Beach, California 92648,

Attention: President, until a new address shall have been substituted by like notice; and in the case of Holder, addressed to Holder at the address written above, until a new address shall have been substituted by like notice.

10. Choice of Law. The laws of the State of Nevada

shall govern the validity, construction, performance and effect of this debenture.

IN WITNESS WHEREOF, the Company has caused this debenture to be executed and delivered by its duly authorized officer as of the date first above written.

GAMECRAFT, INC.

By: _____

Its: _____

THIS DEBENTURE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF THE STATE OF CALIFORNIA, NEVADA, OR ANY OTHER STATE. THIS DEBENTURE MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT OR APPROPRIATE EXEMPTION FROM REGISTRATION UNDER THE FOREGOING LAWS. ACCORDINGLY, THIS DEBENTURE MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF WITHOUT (i) THE OPINION OF COUNSEL SATISFACTORY TO THIS CORPORATION THAT SUCH TRANSFER MAY LAWFULLY BE MADE WITHOUT REGISTRATION UNDER THE FEDERAL SECURITIES ACT OF 1933 AND THE SECURITIES LAWS OF THE STATE OF CALIFORNIA, NEVADA OR ANY OTHER APPLICABLE STATE SECURITIES LAWS; OR (ii) SUCH REGISTRATION. THIS LEGEND REPRESENTS A RESTRICTION ON TRANSFERABILITY OF THIS DEBENTURE.

SECURED CONVERTIBLE DEBENTURE EXERCISE

(To be signed only upon exercise of debenture)

The undersigned, the holder of the foregoing debenture, hereby irrevocably elects to exercise the conversion right represented by such convertible debenture for _____ of the shares of Common Stock of Gamecraft, Inc. to which such convertible debenture relates and requests that the certificates for such shares be issued in the name of, and be delivered to _____, whose address is set forth below the signature of the undersigned.

Dated: _____, 200__

(Name and Address of Holder)

SECURED CONVERTIBLE DEBENTURE ASSIGNMENT

(To be signed only upon transfer of debenture)

FOR VALUE RECEIVED, Mikohn Gaming Corporation hereby sells, assigns and transfers unto [insert name and address of transferee] the foregoing secured convertible debenture and the right to acquire the shares of common stock of Gamecraft, Inc., to which such secured convertible debenture relates and appoints _____ attorney to transfer such purchase right on the books of Gamecraft, Inc. with full power of substitution in the premises.

Dated: _____, 200____

MIKOHN GAMING CORPORATION

By: _____

Its: _____

ACKNOWLEDGED AND APPROVED.

Dated: _____, 200____.

GAMECRAFT, INC.

By: _____

Its: _____

Subsidiaries of the Registrant

The following lists the subsidiaries of the registrant:

Subsidiary / dba -----	State / Country of Incorporation -----
Casino Excitement, Inc.	Nevada
Games of Nevada, Inc.	Nevada
MGC, Inc.	Nevada
Mikohn Australasia (92.6%)	Australia
Mikohn Europe, BV	The Netherlands
Mikohn Foreign Sales Corporation	Barbados
Mikohn International, Inc.	Nevada
Mikohn Nevada	Nevada
Progressive Games, Inc.	Delaware

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K into Mikohn Gaming Corporation's previously filed Registration Statements on Form S-8 (File No. 33-73506), Form S-8 (File No. 333-07441), Form S-8 (File No. 333-30525) and Form S-8 (File No. 333-30605).

Arthur Andersen LLP

Las Vegas, Nevada
April 10, 2002

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-73506, 333-07441, 333-30525 and 333-30605 of Mikohn Gaming Corporation on Form S-8 of our report dated February 26, 2000, appearing in this Annual Report on Form 10-K of Mikohn Gaming Corporation for the year ended December 31, 2001.

DELOITTE & TOUCHE LLP

Las Vegas, Nevada
April 12, 2002

April 15, 2002

EXHIBIT 99

Securities and Exchange Commission
450 5/th/ Street, N.W. Washington D.C. 20549

Ladies and Gentlemen,

Arthur Andersen LLP (Andersen), our independent public accountant, has represented to us that its audit of our consolidated financial statements as of December 31, 2001 and its audit of our financial statements of Mikohn Nevada as of December 31, 2001, were subject to Andersen's quality control system for its U.S. accounting and auditing practice to provide reasonable assurance that the engagements were conducted in compliance with professional standards and that there was appropriate continuity of Andersen personnel working on the audits, availability of national office consultation, and availability of personnel at foreign affiliates of Andersen to conduct the relevant portions of the audits.

Very truly yours,

/s/ Donald S. Stevens
Executive Vice President, Treasurer
and Chief Financial Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Mikohn Nevada:

We have audited the accompanying balance sheets of Mikohn Nevada (the "Company"), a wholly-owned subsidiary of Mikohn Gaming Corporation, as of December 31, 2001 and 2000, and the related statements of operations, changes in stockholder's equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mikohn Nevada as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
April 1, 2002

MIKOHN NEVADA
BALANCE SHEETS
As of December 31, 2001 and 2000

(Amounts in thousands, except share amounts)

	2001	2000
	-----	-----
Assets		
Current assets:		
Cash and cash equivalents	\$ 3	\$ 1
Accounts receivable, net	4,124	5,470
Installment sales receivable - current	553	503
Inventories, net	4,972	7,843
Prepaid expenses and other	2,202	2,022
Deferred tax assets - current	2,964	2,633
	-----	-----
Total current assets	14,818	18,472
Installment sales receivable - noncurrent	92	
Property and equipment, net	19,818	12,967
Intangible assets, net	96	
Goodwill, net	2,471	2,776
Other assets	1,623	1,405
	-----	-----
Total assets	\$ 38,918	\$ 35,620
	=====	=====
Liabilities and Stockholder's Equity		
Current liabilities:		
Long-term debt - current	\$ 1,453	\$ 854
Accounts payable	1,556	2,416
Accrued royalties	1,951	1,067
Accrued and other current liabilities	36	
Deferred revenue - current	760	572
Intercompany payable	21,203	23,247
	-----	-----
Total current liabilities	26,959	28,156
Long-term debt - noncurrent	1,829	1,574
Deferred revenue - noncurrent	942	1,207
Deferred tax liabilities - noncurrent	2,224	267
Other liabilities		1,500
	-----	-----
Total liabilities	31,954	32,704
	-----	-----
Stockholder's equity:		
Preferred stock, \$.01 par value, 500,000 shares authorized, none issued and outstanding		
Common stock, \$.001 par value, 20,000,000 shares authorized, 100 shares issued and outstanding		
Additional paid-in capital	3,500	3,500
Retained earnings (accumulated deficit)	3,464	(584)
	-----	-----
Total stockholder's equity	6,964	2,916
	-----	-----
Total liabilities and stockholder's equity	\$ 38,918	\$ 35,620
	=====	=====

See notes to financial statements

MIKOHN NEVADA
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2001, 2000 and 1999

(Amounts in thousands)

	2001	2000	1999
	-----	-----	-----
Revenues:			
Gaming operations	\$27,524	\$14,835	\$ 6,073
Product sales	3,064	3,317	3,950
Related party sales	1,182	1,663	2,256
	-----	-----	-----
Total revenues	31,770	19,815	12,279
	-----	-----	-----
Cost of sales:			
Cost of sales	8,537	10,526	4,427
Cost of sales-related party	788	1,232	1,142
	-----	-----	-----
Total cost of sales	9,325	11,758	5,569
	-----	-----	-----
Gross profit	22,445	8,057	6,710
Operating income (loss):			
Selling, general and administrative expenses	15,423	8,812	5,874
Write-off of assets and other	306	3,931	1,352
	-----	-----	-----
Operating income (loss)	6,716	(4,686)	(516)
Interest expense	(298)	(149)	
Other income and (expense)	(190)	(68)	119
	-----	-----	-----
Income (loss) before income tax (provision) benefit	6,228	(4,903)	(397)
Income tax (provision) benefit	(2,180)	1,716	139
	-----	-----	-----
Net income (loss)	\$ 4,048	\$(3,187)	\$ (258)
	=====	=====	=====

See notes to financial statements

MIKOHN NEVADA
STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
For the Years Ended December 31, 2001, 2000 and 1999

(Amounts in thousands,
Except share amounts)

	Shares -----	Common Stock ----- Amount -----	Additional Paid-In Capital -----	Retained Earnings / (Accumulated Deficit) -----	Total -----
Balance, January 1, 1999	100	\$ -	\$ 3,500	\$ 2,861	\$ 6,361
Net loss	-----	-----	-----	(258)	(258)
Balance, December 31, 1999	100		3,500	2,603	6,103
Net loss	-----	-----	-----	(3,187)	(3,187)
Balance, December 31, 2000	100		3,500	(584)	2,916
Net income	-----	-----	-----	4,048	4,048
Balance, December 31, 2001	100	\$ -	\$ 3,500	\$ 3,464	\$ 6,964
	=====	=====	=====	=====	=====

See notes to financial statements

MIKOHN NEVADA
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001, 2000 and 1999

(Amounts in thousands)	2001 -----	2000 -----	1999 -----
Cash flows from operating activities:			
Net income (loss)	\$ 4,048	\$ (3,187)	\$ (258)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	4,776	3,494	2,079
Amortization	443	441	376
Write-off of assets and other	306	3,931	1,352
Provision for bad debts	746	442	
Provision for obsolete inventory	687	3,819	210
Loss on sale of assets	93	279	121
Changes in assets and liabilities:			
Accounts receivable	600	(3,021)	1,435
Installment sales receivable	(142)	285	(1,084)
Inventories	(5)	1,269	(1,720)
Prepaid expenses	(180)	(1,208)	(711)
Other assets	(199)	(873)	1,210
Accounts payable	(860)	940	277
Accrued expenses and other current liabilities	920	(881)	(61)
Customer deposits		(316)	(427)
Deferred revenue	(647)	(131)	
Other liabilities	(1,500)		
Deferred taxes	251	(2,811)	447
Net cash provided by operating activities	9,337	2,472	3,246
Cash flows from investing activities:			
Purchase of inventory for lease to others	(12,955)	(20,329)	(5,804)
Proceeds from sale-leaseback transactions	3,500	11,500	
Purchase of property and equipment	(35)		
Proceeds from sales of property and equipment	223		
Increase in intangible assets	(100)		
Net cash used in investing activities	(9,367)	(8,829)	(5,804)
Cash flows from financing activities:			
Proceeds from capital lease transactions	2,000	3,000	
Payments for capital leases	(1,146)	(572)	
Net change in intercompany balance	(822)	3,929	2,558
Net cash provided by financing activities	32	6,357	2,558
Increase in cash and cash equivalents	2	-	-
Cash and cash equivalents, beginning of period	1	1	1
Cash and cash equivalents, end of period	\$ 3	\$ 1	\$ 1

See notes to financial statements

MIKOHN NEVADA
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended December 31, 2001, 2000 and 1999

(Amounts in thousands)	2001 -----	2000 -----	1999 -----
Supplemental disclosure of cash flows information:			
Cash paid during the year for:			
Interest	\$ 298 =====	\$ 149 =====	
Supplemental schedule of non-cash investing and financing activities:			
Issuance of Parent warrants related to activities of the Company	\$ 153 =====	\$ 889 =====	
Gaming equipment leased to others acquired through capital lease	\$ 2,000 =====	\$3,000 =====	
Transfer of inventory to gaming equipment leased to others	\$11,023 =====	\$4,889 =====	\$5,191 =====

See notes to financial statements

MIKOHN NEVADA
NOTES TO FINANCIAL STATEMENTS

Note: All amounts (dollars and numbers) reported in the Notes to Financial Statements are expressed in thousands and are rounded to the nearest thousand unless otherwise specified (such as basis points).

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business:

Mikohn Nevada (the "Company"), a wholly-owned subsidiary of Mikohn Gaming Corporation (the "Parent") was incorporated on June 15, 1995 in Nevada. The Company is a developer, manufacturer, and marketer of (i) proprietary branded slot machines, including our Yahtzee(R), Battleship(R) and Ripley's Believe It or Not!(R) series of gaming machines and (ii) gaming products, including gaming machines and keno systems.

The Parent performs certain centralized corporate functions that serve all of its operations including the Company. Certain expenses of these functions (such as, legal and compliance, sales support, research and development and art) have been allocated to its subsidiaries including the Company.

During the years ended December 31, 2001 and 2000, the Parent had an outstanding credit facility. This credit facility was guaranteed by the Company.

On August 22, 2001, the Parent completed the private placement of \$105,000 of its 11.875% Senior Secured Notes due 2008 and warrants to purchase an aggregate of 420 shares of its common stock at a price of \$7.70 per share. The notes are unconditionally guaranteed on a senior secured basis by the Parent's domestic subsidiaries, including the Company. In addition, the Parent has agreed to pledge the stock of the Company upon regulatory approval.

The Company's operations are concentrated in two principal business segments: slot gaming operations and gaming products.

Slot Gaming Operations. The Company established its slot gaming operations business unit to develop, acquire, manufacture and distribute proprietary games, and these have become increasingly important to our business. Increased attention has been given to slot gaming operations because of the high recurring revenues and profit margin potential for this business line. We own or license the rights to several categories of proprietary games, which we place in casinos under lease arrangements. These leases provide for fixed rental payments or a participation in the game's operating results. Sales of proprietary games are reflected in the reported results of our gaming products business segment while revenues derived from leases are included in the results of our gaming operations business segment.

Gaming Products. We have been providing gaming products and equipment through the Company since its inception. Our gaming products are found in almost every major gaming jurisdiction.

Summary of Significant Accounting Policies:

Cash and Cash Equivalents. Investments which mature within 90 days from the date of purchase are treated as cash equivalents and are included in cash and cash equivalents.

Fair Values of Financial Instruments. In accordance with reporting and disclosure requirements of the Statement of Financial Accounting Standards ("SFAS") No. 107 - Disclosures about Fair Values of Financial Instruments. The Company calculates the fair value of financial instruments and includes this information in the Company's Notes to Financial Statements when the fair value is different than the book value of those financial instruments. When fair value is equal to book value, no disclosure is made. Fair value is determined using quoted market prices whenever available. When quoted market

prices are not available, the Company uses alternative valuation techniques such as calculating the present value of estimated future cash flows utilizing discount rates commensurate with the risks involved.

Concentration of Credit Risk. The Company sells its products and services to distributors and gaming properties primarily in Nevada. The Company established a financing program under which interest bearing installment sales contracts collateralized by the equipment sold were entered into with credit worthy customers, with payment terms typically ranging over periods of 12 to 24 months. The Company performs credit evaluations of its customers, and typically requires advance deposits of approximately 50%.

Related Party Transactions. The Company is dependent on the Parent for funding. No interest is charged on funds advanced by the Parent. The Company sells product to its Parent and other subsidiaries of the Parent which are reflected in the accompanying statements of operations.

Inventories. Inventories are stated at the lower of cost (determined using the first-in, first-out method) or market.

Long-Lived Assets. Property and equipment are stated at cost and are depreciated by the straight-line method over the useful lives of the assets, which range from 5 to 10 years. Costs of major improvements are capitalized; costs of normal repairs and maintenance are charged to expense as incurred. Management requires long-lived assets that are held and used by the Company to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Intangible Assets. Intangible assets consist of license agreements. They are recorded at cost and are amortized on a straight-line basis over the life of the license agreement, typically 7 years. Management regularly performs reviews to determine if the carrying value of intangible assets is impaired. The purpose of the review is to identify any facts or circumstances, either internal or external, which may indicate that whether the carrying value of the asset cannot be recovered. See Note 9 - Write-off of Assets and Other.

Goodwill. Goodwill consists of the excess purchase price over the fair market value of the assets acquired and is amortized on a straight-line basis over 15 years. Management regularly performs reviews to determine if the carrying value of goodwill is impaired. The purpose of the review is to identify any facts or circumstances, either internal or external, which may indicate that whether or not the carrying value of the asset can be recovered. See Note 9 - Write-off of Assets and Other.

Deposits and Product Sales Recognition. Deposit liabilities represent amounts collected in advance from customers pursuant to agreements under which the related sale of inventory has not been completed.

Revenue Recognition. The Company recognizes revenue as follows:

Product sales are executed by a signed contract or customer purchase order. Revenue is recognized when the completed product is delivered. If the agreement calls for the Company to perform an installation after delivery, revenue, related to the installation, is recognized when the installation has been completed and accepted by the customer.

The leasing of proprietary slot machines occurs under signed lease agreements. These contracts will either be on a participation or a lease basis. Slot machine lease contracts are typically for a 12-month period with a 60-day cancellation clause. On a participation basis, the Company earns a share of the revenue that the casino earns from these slot machines. On a lease basis, the Company charges a fixed amount per slot machine per day. Both types of revenue are recognized on a monthly basis.

Equity Instruments Issued to Vendors: Our Parent's accounting policy for equity instruments issued to vendors in exchange for goods and services follows the provisions of Emerging Issues Task

Force ("EITF") 96-18 - Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services and EITF 00-18 - Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete.

The Company has received from Hasbro and Ripley licensing rights to intellectual property, including rights to develop and market gaming devices and associated equipment under the trademarks Yahtzee(R) and Battleship(R). In exchange for these license agreements, the Parent granted Hasbro and Ripley warrants to purchase shares of the Parent's common stock for each license. The fair value, as determined above, of the acquired rights is capitalized and is recognized as a charge to the statement of operations over the term of the licensing agreement. At December 31, 2001, warrants to purchase 285 shares of the Parent's common stock were vested with a fair market value of \$1,042. In connection with licenses to other properties, the Parent has issued an additional 250 warrants that were not vested at December 31, 2001.

Research and Development. Costs associated with the development of products are expensed when incurred. Such expenses totaled approximately \$801, \$827 and \$913 for the years ended December 31, 2001, 2000 and 1999, respectively.

Income Taxes. The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes, pursuant to which the Company records deferred income taxes for temporary differences that are reported in different years for financial reporting and for income tax purposes. Such deferred tax liabilities and assets are classified into current and non-current amounts based on the classification of the related assets and liabilities.

The Company is included in the Parent's consolidated federal income tax return.

Use of Estimates and Assumptions. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table presents the carrying amount and estimated fair value of our financial instruments at December 31, 2001:

	Carrying Amount -----	Estimated FMV ----
Liabilities:		
Long-term debt	\$3,282 =====	\$3,247 =====

The estimated fair value of long-term debt was calculated by discounting the expected amortization principal and interest payments by the discount rates most closely approximating that which would be required to place similar notes payable and capitalized leases at the current time.

3. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2001 and 2000 consist of the following:

	2001	2000
	-----	-----
Trade accounts	\$4,771	\$5,644
Other	87	
	-----	-----
Subtotal	4,858	5,644
Less: allowance for doubtful accounts	(734)	(174)
	-----	-----
Total	\$4,124	\$5,470
	=====	=====

Changes in the allowance for doubtful accounts for the years ended December 31, 2001 and 2000 are summarized as follows:

	2001	2000
	-----	-----
Allowance for doubtful accounts - beginning	\$(174)	\$ -
Provision for bad debts	(746)	(442)
Write-offs	186	268
	-----	-----
Allowance for doubtful accounts - ending	\$(734)	\$(174)
	=====	=====

4. INSTALLMENT SALES RECEIVABLE

The Company finances certain sales. The amounts financed during 2001 and 2000 totaled approximately \$192 and none, respectively. At December 31, 2001 and 2000, the balance of installment sales receivable was \$645 and \$503 of which \$553 and \$503, respectively, were due within 12 months. At December 31, 2001 and 2000, the Company had \$533 and \$174, respectively, in allowance for doubtful accounts for installment sales receivables which are included in the allowance for doubtful accounts reported above, see Note 3 - Accounts Receivable.

5. INVENTORIES

Inventories at December 31, 2001 and 2000 consist of the following:

	2001	2000
	-----	-----
Raw materials	\$ 3,523	\$ 3,989
Finished goods	3,887	6,636
Work-in-progress	579	460
	-----	-----
Subtotal	7,989	11,085
Less: reserve for obsolete inventory	(3,017)	(3,242)
	-----	-----
Total	\$ 4,972	\$ 7,843
	=====	=====

Changes in the reserve for obsolete inventory for the years ended December 31, 2001 and 2000 are summarized as follows:

	2001 -----	2000 -----
Reserve for obsolete inventory - beginning	\$(3,242)	\$ (502)
Provision for obsolete inventory	(687)	(3,819)
Write-offs	912	1,079
	-----	-----
Reserve for obsolete inventory - ending	\$(3,017) =====	\$(3,242) =====

6. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2001 and 2000 consist of the following:

	2001 -----	2000 -----
Leasehold improvements	\$ 557	\$ 532
Machinery and equipment	79	76
Equipment leased to others	27,791	17,303
Furniture and fixtures	443	435
Transportation equipment	11	11
	-----	-----
Subtotal	28,881	18,357
Less: accumulated depreciation	(9,063)	(5,390)
	-----	-----
Total	\$19,818 =====	\$12,967 =====

See Note 10 - Long-Term Debt

7. INTANGIBLE ASSETS

Intangible assets at December 31, 2001 and 2000 consist of the following:

	2001 -----	2000 -----
License agreement	\$ 100	\$ -
Less: accumulated amortization	(4)	-
	-----	-----
Total	\$ 96 =====	\$ - =====

During 2001, the Parent entered into a licensing agreement with Wink Martindale Enterprises, Inc., for the rights to use Wink Martindale's name, voice and likeness in the development of gaming machines. The Parent paid \$100 for the rights, which have been recorded by the Company. The license agreement is being amortized over seven years.

During 2000, the trademark rights related to the Flip-It(TM) name were written-off. The write-off was due to the decline in the Flip-It(TM) slot operation. See Note 9 - Write-off of Assets and Other.

8. GOODWILL

Goodwill at December 31, 2001 and 2000 consists of the following:

	2001 -----	2000 -----
Goodwill	\$ 4,585	\$ 4,585
Less: accumulated amortization	(2,114)	(1,809)
	-----	-----
Total	\$ 2,471 =====	\$ 2,776 =====

During 2000, goodwill related to the acquisition of Games of Nevada in the amount of \$545, net of amortization was written off. The write-off was due to the decline in the Flip-It(TM) slot operation and write-down of related inventory. See Note 9 - Write-off of Assets and Other.

9. WRITE-OFF OF ASSETS AND OTHER

Subsequent to the events of September 11, 2001, the impact of which was felt throughout the worldwide economy, and based on the current economic and business environment relative to financial reporting practices, the Company performed a detailed, comprehensive review of its balance sheet relative to the changed economic and business environment conditions. Specifically identified during this review, management analyzed slow moving, excess or obsolete inventories, customer debts in light of changing economic conditions and other miscellaneous assets.

This review and analysis resulted in the Company taking a charge in its fourth quarter for the write-off of certain MoneyTime(TM) assets of approximately \$306.

As a result of the Company's increased focus on its gaming operations and branded slot machines following the review conducted as part of the Parent's strategic repositioning initiative, the Company determined that certain of its older non-branded slot machine games, prepaid royalties related to a licensing agreement and goodwill had balance sheet costs (primarily long-term assets) in excess of their present realizable value, resulting in a write-off in 2000 of \$2,431. Provisions for inventory writedowns of \$1,553 and \$1,301 relating to the older non-branded Flip-It(TM) product line as well as the Mikohn Classic(TM) slot machines, respectively, have been included in cost of sales in the accompanying financial statements.

On March 27, 2001, a jury returned a verdict in favor of Acres Gaming, Inc. against Mikohn Gaming Corporation. The jury's award of \$1,500 was included in the accompanying statement of operations for the year ended December 31, 2000, as it relates to the products of the Company.

During the year ended December 31, 1999, the Company incurred a non-recurring asset write-off of \$1,352 related to our PMCoin product line, which includes our Mikohn Classic slot machine games. During 1999, pursuant to SFAS No. 121 - Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, to more accurately reflect the value of the PMCoin slot machine product line, we recorded a write-off of assets of \$1,352. These charges included write-offs of both the investment in the product line as well as prepaid royalties associated with the product line.

10. LONG-TERM DEBT

Long-term debt at December 31, 2001 and 2000 consist of the following:

	2001	2000
	-----	-----
Capital lease of gaming equipment. This total consists of four capital leases that bear individual interest rates between 8.80% and 12.25% and whose terms are scheduled to mature at various dates through January 2005. The related capitalized costs for these leases was were \$4,114 at December 31, 2001.	\$ 3,282	\$2,428
Total	3,282	2,428
Less: current portion	(1,453)	(854)
	-----	-----
Long-term portion	\$ 1,829	\$1,574
	=====	=====

During 2001, the Company has entered into two sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have terms of 40 months and 44 months and are being treated as capital leases. Proceeds from these sale-leaseback transactions totaled \$2,000.

During 2000, the Company entered into two sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have a term of 40 months and are being treated as capital leases. Proceeds from these sale-leaseback transactions totaled \$3,000.

Following is the long-term debt maturity schedule:

2002	\$1,453
2003	1,258
2004	543
2005	28

Total	\$3,282
	=====

11. COMMITMENTS

We lease certain of our facilities and equipment under various agreements for periods through the year 2004.

The following schedule shows the future minimum rental payments required under these operating leases, which have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2001:

2002	\$ 6,290
2003	6,332
2004	1,674

Total	\$14,296
	=====

Rent expense was \$4,690, \$978 and \$559 for the years ended December 31, 2001, 2000 and 1999, respectively.

During 2001, the Company has entered into a series of sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have a term of 40 months, a fair value purchase option at the end of the term, and are being treated as operating leases. Proceeds from these sale-leaseback transactions totaled \$3,500. The company has recorded deferred gains from these transactions totaling \$651 which are being amortized, straight line, over the term of the respective leases as a reduction in rental expense.

During 2000, the Company entered into a series of sale-leaseback transactions with various third party finance companies. The transactions involve gaming equipment, have a term of 40 months, a fair value purchase option at the end of the term, and are being treated as operating leases. Proceeds from these sale-leaseback transactions totaled \$11,500. The Company recorded deferred gains from these transactions totaling \$1,902 which are being amortized, straight-line, over the term of the respective leases as a reduction in rental expense.

12. INCOME TAXES

The provision (benefit) for income taxes for the years ended December 31, 2001, 2000 and 1999 consist of:

	2001 -----	2000 -----	1999 -----
Current	\$1,929	\$ 1,095	\$(586)
Deferred	251	(2,811)	447
	-----	-----	-----
Total provision (benefit)	\$2,180 =====	\$(1,716) =====	\$(139) =====

The provision (benefit) for income taxes for the years ended December 31, 2001, 2000 and 1999 differs from the amount computed at the federal income tax statutory rate as a result of the following:

	2001 -----	% ---	2000 -----	% ---	1999 -----	% ---
Amount at statutory rate	\$2,180 -----	35.0%	\$(1,716) -----	35.0%	\$(139) -----	35.0%
Total provision (benefit)	\$2,180 =====	35.0%	\$(1,716) =====	35.0%	\$(139) =====	35.0%

The components of the net deferred tax asset at December 31, 2001 and 2000 consist of the following:

	2001	2000
	-----	-----
Deferred tax assets:		

Current:		
Inventory book / tax differences	\$2,418	\$1,847
Prepaid expenses and other		61
Deferred revenue	266	200
Bad debts	257	
Patent litigation		525
Amortization	23	
	-----	-----
Subtotal	2,964	2,633
	-----	-----
Non-current:		
Deferred revenue		422
Sale-leaseback		186
Intangible assets		23
	-----	-----
Subtotal		631
	-----	-----
Total deferred tax assets	2,964	3,264
	-----	-----
Deferred tax liabilities:		

Non-current:		
Sale-leaseback	1,215	
Fixed assets and other	1,009	898
	-----	-----
Total deferred tax liabilities	2,224	898
	-----	-----
Net deferred tax assets	\$ 740	\$2,366
	=====	=====

16. CONCENTRATIONS OF CREDIT RISK

The financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts and installment sales receivable. Product sales are primarily to casinos and gaming equipment manufacturers.

At December 31, 2001, accounts and installment sales receivable on an operations basis are as follows:

	Accounts Receivable	Installment Sales Receivable	Total
	-----	-----	-----
Trade receivables:			
Gaming operations	\$4,591	\$ -	\$4,591
Gaming products	267	645	912
	-----	-----	-----
	\$4,858	\$ 645	\$5,503
	=====	=====	=====

17. SEGMENT REPORTING

The Company's operations are concentrated in two principal business segments: gaming operations and gaming products. See Note 1 - Description of Business and Summary of Significant Accounting Policies.

Business segment information for the years ended December 31, 2001, 2000 and 1999 consists of:

Business Segments:	2001	2000	1999
-----	-----	-----	-----
Revenues:			
Gaming operations	\$27,524	\$14,835	\$ 6,073
Product sales	4,246	4,980	6,206
	-----	-----	-----
Total	\$31,770	\$19,815	\$12,279
	=====	=====	=====
Gross profit:			
Gaming operations	\$19,276	\$ 9,226	\$ 4,577
Product sales	3,169	(1,169)	2,133
	-----	-----	-----
Total	\$22,445	\$ 8,057	\$ 6,710
	=====	=====	=====
Operating income (loss):			
Gaming operations	\$ 4,692	\$ 1,450	\$ (666)
Product sales	2,330	(2,205)	1,502
	-----	-----	-----
Subtotal	7,022	(755)	836
Write-off of assets and other	(306)	(3,931)	(1,352)
	-----	-----	-----
Total	\$ 6,716	\$(4,686)	\$ (516)
	=====	=====	=====

Depreciation and amortization:			
Gaming operations	\$ 5,117	\$ 3,826	\$ 2,328
Product sales	102	109	127
	-----	-----	-----
Total	\$ 5,219	\$ 3,935	\$ 2,455
	=====	=====	=====
Assets:			
Gaming operations	\$31,627	\$23,451	\$16,338
Product sales	7,291	12,169	12,778
	-----	-----	-----
Total	\$38,918	\$35,620	\$29,116
	=====	=====	=====
Capital expenditures:			
Gaming operations	\$13,106	\$ 9,287	\$ 4,892
Product sales	35	45	87
	-----	-----	-----
Total	\$13,141	\$ 9,332	\$ 4,979
	=====	=====	=====

15. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the FASB issued two new standards, SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. Together these statements will change the accounting for business combinations and goodwill. SFAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. SFAS 142 changes the accounting for goodwill and indefinite lived intangible assets from an amortization method to an impairment only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of SFAS 142. Amortization will still be required for identifiable intangible assets with finite lives. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after December 15, 2001. Early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not previously been issued. The Company is required to adopt SFAS 142 at the beginning of 2002. The impact that SFAS 141 and SFAS 142 will have on our financial condition or results of operations will be to reduce amortization expense of certain assets previously amortized by approximately \$1.7 million annually beginning in 2002. The Company will also be required to make an initial impairment assessment, and review goodwill for impairment on an ongoing basis, at least annually.

In July 2001, the SEC issued SAB No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues. SAB 102 gives guidance on the documentation and methodologies used in the determination of loan loss allowances. We believe the adoption of this bulletin will not have a material impact on our consolidated financial condition or results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, which will begin January 1, 2002. Based on a recent analysis, we believe the adoption of this bulletin will not have a material impact on our consolidated financial condition or results of operations.