SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1998-07-22** | Period of Report: **1998-06-30**
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SODAK GAMING INC

CIK:**903856**| IRS No.: **460407053** | State of Incorp.:**SD** | Fiscal Year End: **1231**
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SIC: **5040** Professional & commercial equipment & supplies

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1998

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________________ to _________________

Commission File No. 0-21754

SODAK GAMING, INC.
(Exact name of registrant as specified in its charter)

SOUTH DAKOTA	46-0407053
(State of Incorporation)	(I.R.S. Employer Identification No.)

5301 S. Highway 16
Rapid City, South Dakota 57701
(Address of principal executive offices)

(605) 341-5400
(Registrant's telephone number, including area code)

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 such filing requirements for the past 90 days.

Yes X ______ No ______

At July 20, 1998, there were outstanding 22,758,408 shares of the Company's common stock.

Sodak Gaming, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Sodak Gaming, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

<TABLE>
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In thousands, except share and per share amounts	Three months ended June 30, 1998	1997 as adjusted (Note 2)	1997 as previously reported
<S>	<C>	<C>	<C>
Revenue:			
Product sales	$ 14,969	14,230	14,230
Gaming operations	14,577	13,855	13,855
Wide area progressive systems	3,915	3,480	3,480
Financing income	2,551	1,773	1,773
Total revenue	36,012	33,338	33,338
Costs and expenses:			
Cost of product sales	11,366	10,547	10,547
Gaming operations	13,375	13,814	13,522
Selling, general and administrative	4,879	5,302	4,597
Restructuring charges	1,149	0	0
Interest and financing costs	751	834	834
Total costs and expenses	31,520	30,497	29,500
Income from operations	4,492	2,841	3,838
Other income, net	52	15	15
Earnings before income taxes	4,544	2,856	3,853
Provision for income taxes	1,681	1,186	1,426
Net earnings	$ 2,863	1,670	2,427
Earnings per common share, basic and diluted	$ 0.13	0.07	0.11

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Weighted average number of common and common equivalent shares outstanding	22,769,961	22,900,152	22,900,152

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

Sodak Gaming, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

<TABLE>
<CAPTION>

In thousands, except share and per share amounts	Six months ended June 30, 1998	1997 as adjusted (Note 2)	1997 as previously reported
<S>	<C>	<C>	<C>
Revenue:			
Product sales	$ 25,732	25,667	25,667
Gaming operations	27,943	26,774	26,774
Wide area progressive systems	7,584	5,913	5,913
Financing income	4,639	4,084	4,084
Total revenue	65,898	62,438	62,438
Costs and expenses:			
Cost of product sales	19,561	19,975	19,975
Gaming operations	26,296	26,859	26,447
Selling, general and administrative	9,462	10,649	9,074
Restructuring charges	1,149	0	0
Interest and financing costs	1,758	1,623	1,623
Total costs and expenses	58,226	59,106	57,119
Income from operations	7,672	3,332	5,319
Other income:			
Gain on sale of receivables	0	537	537
Other, net	73	28	28
Total other income	73	565	565
Earnings before income taxes and cumulative effect of accounting change	7,745	3,897	5,884
Provision for income taxes	2,930	1,642	2,177
Earnings before cumulative effect of accounting change	4,815	2,255	3,707
Cumulative effect of change in accounting principle, net of income tax effect	0	(3,131)	0
Net earnings (loss)	$ 4,815	(876)	3,707
Earnings (loss) per common share, basic and diluted:			
Earnings before cumulative effect of accounting change	$ 0.21	0.10	0.16
Cumulative effect of accounting change	0.00	(0.14)	0.00
Net earnings (loss)	$ 0.21	(0.04)	0.16
Weighted average number of common and common equivalent shares outstanding	22,776,495	22,926,165	22,926,165

</TABLE>

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The accompanying notes are an integral part of the consolidated financial statements.

Sodak Gaming, Inc.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

<TABLE>
<CAPTION>

In thousands, except shares	June 30, 1998	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,923	3,942
Current trade, notes and interest receivables	30,411	36,137
Inventories	18,640	22,294
Prepaid expenses	875	756
Refundable income taxes	857	663
Deferred income taxes	1,344	1,319
Total current assets	59,050	65,111
Property and equipment, net	60,225	59,739
Notes receivable, net of current maturities	32,138	38,723
Deferred income taxes	443	789
Other assets, net	287	794
	$ 152,143	165,156
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 19,624	32,379
Current maturities of long-term debt	3,741	3,634
Income taxes payable	0	75
Deferred financing fee revenue	1,557	1,846
Accrued payroll and payroll related costs	3,331	1,986
Other accrued liabilities	4,580	3,620
Total current liabilities	32,833	43,540
Long-term debt, net of current maturities	13,749	19,818
Shareholders' equity:		
Preferred stock, $0.001 par value, 25,000,000 shares authorized, none issued and outstanding	0	0
Common stock, $0.001 par value, 75,000,000 shares authorized, 22,758,408 issued and outstanding	23	23
Additional paid-in capital	64,088	64,088
Retained earnings	44,877	40,061
Cumulative translation adjustment	(3,427)	(2,374)
Total shareholders' equity	105,561	101,798
	$ 152,143	165,156

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

Sodak Gaming, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

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<TABLE>
<CAPTION>

In thousands	Six months ended June 30, 1998	1997 as adjusted (Note 2)	1997 as previously reported
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net earnings (loss)	$ 4,815	(876)	3,707
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Pre-tax cumulative effect of change in accounting principle	0	4,409	0
Depreciation and amortization	2,937	3,271	3,271
Provision for doubtful accounts	244	357	357
Deferred income taxes	321	137	137
Gain on sale of receivables	0	(537)	(537)
Gain on sale of property, equipment and real estate	(47)	0	0
Changes in operating assets and liabilities:			
Trade and accrued interest receivables	(15)	5,902	5,902
Notes receivable relating to financed sales	16,160	1,417	1,417
Inventories	3,654	(1,131)	(1,131)
Prepaid expenses	(118)	158	158
Accounts payable	(12,756)	(12,093)	(12,093)
Accrued liabilities	2,017	647	647
Income taxes payable, net of refundable income taxes	(268)	(169)	1,644
Net cash provided by operating activities	16,944	1,492	3,479
Cash flows from investing activities:			
Cash advanced on notes receivable	(6,576)	(3,875)	(3,875)
Payments received on notes receivable	2,497	1,735	1,735
Proceeds from sale of property, equipment and real estate	524	0	0
Purchases of property and equipment	(4,553)	(4,998)	(4,998)
(Increase) decrease in other assets	157	(255)	(2,242)
Net cash used in investing activities	(7,951)	(7,393)	(9,380)
Cash flows from financing activities:			
Proceeds from long-term borrowings	28,000	22,750	22,750
Principal repayments of long-term debt	(33,962)	(14,934)	(14,934)
Net proceeds from exercise of stock options	0	4	4
Net cash provided by (used in) financing activities	(5,962)	7,820	7,820
Effect of exchange rate changes on cash and cash equivalents	(50)	(147)	(147)
Net increase in cash and cash equivalents	2,981	1,772	1,772
Cash and cash equivalents, beginning of period	3,942	4,077	4,077
Cash and cash equivalents, end of period	$ 6,923	5,849	5,849
Supplemental disclosure of cash flow information:			
Cash paid during period for interest	$ 1,665	1,600	1,600
Cash paid during period for income taxes	2,877	396	396

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1998
(Unaudited)

NOTE 1 - UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements of Sodak Gaming, Inc. and its consolidated subsidiaries have been prepared by the Company in accordance with generally accepted accounting principles for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the consolidated financial statements have been condensed or omitted. The results for the periods indicated are unaudited, but reflect all adjustments (consisting only of normal recurring adjustments) which management considers necessary for a fair presentation of operating results.

Results of operations for interim periods are not necessarily indicative of a full year of operations.

These condensed consolidated financial statements should be read in conjunction with the 1997 consolidated financial statements and notes thereto as published in the annual report on Form 10-K.

Certain 1997 amounts have been reclassified to conform to the 1998 presentation.

NOTE 2 - CHANGE IN ACCOUNTING METHOD

During the fourth quarter of 1997, the Company changed its accounting method for costs of pre-opening and start-up activities to capitalizing such costs subsequent to obtaining all regulatory approvals and authorizations for the underlying project and expensing such costs immediately upon opening the new operation. The Company's previous accounting method had been to capitalize such costs from inception until the project became operational, at which time the capitalized costs were amortized over a period not to exceed five years. As a result of this accounting change, there were no such capitalized costs on the balance sheets at June 30, 1998 or December 31, 1997.

The effect of adopting this new accounting method reduced previously reported earnings before cumulative effect of the accounting change during the three months and six months ended June 30, 1997 as follows:

<TABLE>
<CAPTION>

In thousands	Three months ended June 30, 1997	Six months ended June 30, 1997
<S>	<C>	<C>
Increase in gaming operations expenses	$ 292	412
Increase in selling, general and administrative expenses	705	1,575
Decrease in income from operations	997	1,987
Income tax effect	240	535
Decrease in earnings before cumulative effect of accounting change	$ 757	1,452

</TABLE>

The cumulative effect of this accounting change, reflected as a charge to earnings (loss) on January 1, 1997 in the amount of approximately $3.1 million, is comprised of approximately $4.4 million of such costs capitalized at January 1, 1997, net of tax benefits of approximately $1.3 million.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, REPORTING ON COSTS OF START-UP ACTIVITIES, requiring pre-opening and start-up costs to be expensed as incurred. The Company has adopted the requirements of this new Statement of Position effective in the

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first quarter of 1998. The adoption of the requirements of this new Statement of Position did not impact the Company's financial statements.

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, REPORTING COMPREHENSIVE INCOME. This statement requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet, and is effective for the Company's year ending December 31, 1998. The Company's only item of other comprehensive income relates to foreign currency translation adjustments, and is presented separately on the balance sheet as required. If presented for the three months and six months ended June 30, 1998 and 1997, comprehensive income (loss) would be as follows:

<TABLE>
<CAPTION>

In thousands	Three months ended June 30, 1998	Three months ended June 30, 1997 as adjusted	Three months ended June 30, 1997 as previously reported	Six months ended June 30, 1998	Six months ended June 30, 1997 as adjusted	Six months ended June 30, 1997 as previously reported
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net income (loss)	$ 2,863	1,670	2,427	4,815	(876)	3,707
Foreign currency translation adjustments	(524)	(139)	(139)	(1,053)	(255)	(255)
Tax effect of foreign currency translation adjustments	8	24	24	62	45	45
Comprehensive income	$ 2,347	1,555	2,312	3,824	(1,086)	3,497

</TABLE>

NOTE 4 - CORPORATE RESTRUCTURING

On June 18, 1998, the Company announced a corporate restructuring designed to refocus the Company on its core businesses - product sales and wide area progressive systems to Native American casinos. The Company indicated its current plan to limit future pursuit of gaming operations to North America. The Company also announced that it would be divesting its Latin American operations in Peru, Ecuador and Brazil.

In conjunction with certain changes and restructuring, known costs and expenses relating to severance amounting to approximately $1.1 million were charged to operations during the three months ended June 30, 1998. The Company is currently in the preliminary stages of restructuring and the early planning stage for the divestiture of Latin American assets. When the Company determines a specific divestiture plan, additional restructuring charges may be incurred.

NOTE 5 - COMMON SHARES OUTSTANDING

The following is a reconciliation of basic weighted average shares outstanding to diluted weighted average shares outstanding for the three-month and six-month periods ended June 30, 1998 and 1997:

<TABLE>
<CAPTION>

	Three months ended June 30, 1998	Three months ended June 30, 1997 as adjusted	Three months ended June 30, 1997 as previously reported	Six months ended June 30, 1998	Six months ended June 30, 1997 as adjusted	Six months ended June 30, 1997 as previously reported
<S>	<C>	<C>	<C>	<C>	<C>	<C>

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Shares Outstanding						
Weighted average common shares outstanding	22,758,408	22,758,231	22, 758,231	22,758,408	22,757,961	22,757,961
Adjustments for common stock equivalents 1	11,553	141,921	141,921	18,087	168,204	168,204
Weighted average number of common and common equivalent shares outstanding	22,769,961	22,900,152	22,900,152	22,776,495	22,926,165	22,926,165
Net Earnings (loss)	$ 2,863,031	$ 1,670,439	$ 2,427,181	$ 4,815,551	$ (875,664)	$ 3,706,692
Earnings (loss) per share, basic	$ 0.13	$ 0.07	$ 0.11	$ 0.21	$ (0.04)	$ 0.16
Earnings (loss) per share, diluted	$ 0.13	$ 0.07	$ 0.11	$ 0.21	$ (0.04)	$ 0.16

(1) Represents adjustment computed under the treasury stock method for stock options granted at fair market value at date of grant.

</TABLE>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

The discussion that follows compares results for the three months and six months ended June 30, 1998 to results for the three months and six months ended June 30, 1997. Results for 1997 have been adjusted for an accounting change as described in Note 2 to the consolidated financial statements.

On June 18, 1998, the Company announced a corporate restructuring designed to refocus the Company on its core businesses - product sales and wide area progressive systems to Native American casinos. The Company indicated its current plan to limit future pursuit of gaming operations to North America. The Company also announced that it would be divesting its Latin American operations in Peru, Ecuador and Brazil.

In addition, the announcement included: 1) Company plans to appoint two additional independent directors to the board; 2) the June 30, 1998 retirement of Michael G. Wordeman as chief executive officer, who will remain as chairman of board through May 1999 and intends to remain on the board thereafter; 3) the appointment of Roland W. Gentner as interim chief executive while an executive search for a new chief executive is undertaken (Mr. Gentner has been president, chief operating officer and director since 1993); and 4) the assumption of the duties of David R. Johnson, who resigned as chief financial officer on June 12, 1998, by Clayton R. Trulson, vice president of finance and treasurer.

In conjunction with certain changes and restructuring, known costs and expenses relating to severance amounting to approximately $1.1 million were charged to operations during the three months ended June 30, 1998. The Company is currently in the preliminary stages of restructuring and the early planning stage for the divestiture of Latin American assets. When the Company determines a specific divestiture plan, additional restructuring charges may be incurred. After completion of the restructuring process, the Company's ongoing administrative costs are expected to be reduced to reflect reorganization and changes in strategy.

RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 1998
COMPARED TO THE THREE MONTHS ENDED JUNE 30, 1997

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Net earnings for the three months ended June 30, 1998 increased 71% to $2.9 million, or $0.13 per share, compared to net earnings of $1.7 million, or $0.07 per share, for the three months ended June 30, 1997. Excluding the above-mentioned restructuring charge pertaining to severance costs, net earnings would have been $3.6 million, or $0.16 per share.

The primary factors causing the increase in earnings were increased revenues from wide area progressive systems, improved operating results at the MISS MARQUETTE and increased financing income. Total revenue increased 8% to $36.0 million in 1998, compared to $33.3 million in 1997. Total costs and expenses increased 3% to $31.5 million in 1998, compared to $30.5 million in 1997. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 25% to $6.7 million in 1998 compared to $5.4 million in 1997. EBITDA is a commonly used calculation to measure operating performance. The Company includes EBITDA in its results of operations to assist interpretation of financial performance; however, the Company's principal financial measures are net earnings and earnings per share.

PRODUCT SALES

Revenue from product sales increased 5% to $15.0 million in 1998 compared to $14.2 million in 1997. The increase in 1998 was the result of an 8% increase in machine sales revenue to $12.1 million in 1998 compared to $11.2 million in 1997 (which included $0.4 and $1.9 million of used machine sales in 1998 and 1997, respectively). This increase was partially offset by a 5% decrease in ancillary gaming and non-gaming related product sales revenue to $2.9 million in 1998 compared to $3.0 million in 1997. In 1998, the Company is continuing its strategy of being a full-service provider to its customers by offering an extensive product line which includes gaming-related and non-gaming related products and supplies.

New gaming machine shipments increased 11% to 1,620 machines in 1998 compared to 1,470 machines in 1997. In 1998, 88% of the new machine shipments were to casinos in Kansas, Michigan, North Carolina, New Mexico, Oregon and Wisconsin. In 1997, 65% of the new machine shipments were to casinos in Connecticut, Iowa and Michigan. Growth of gaming in Native American jurisdictions is outside the control of the Company and is influenced by the legal, electoral and regulatory processes of those jurisdictions. In 1998, the Company sold 230 used machines, compared to 450 in 1997.

The cost of product sales increased 8% to $11.4 million in 1998, from $10.5 million in 1997. The gross margin on product sales decreased to 24.1% in 1998 as compared to 25.9% in 1997. The decrease in gross margin is due primarily to the sale of $1.9 million of used machines in 1997, which had a higher gross margin than new machine sales.

GAMING OPERATIONS

Gaming operations revenue increased 5% to $14.6 million in 1998, from $13.9 million in 1997. This increase was attributable to an increase in revenue from the MISS MARQUETTE, which was partially offset by reduced revenue in Peru. Direct costs of gaming operations decreased 3% to $13.4 million in 1998, compared to $13.8 million in 1997. The decrease was primarily attributed to decreased costs in Peru.

DOMESTIC GAMING OPERATIONS

MISS MARQUETTE. The MISS MARQUETTE riverboat casino and entertainment facility has 698 machines and 36 table games and is located on the Mississippi River at Marquette, Iowa. Revenue increased 18% to $9.5 million in 1998 compared to $8.1 million in 1997. Direct operating costs remained steady at $7.6 million in 1998 and 1997. The improvement in operating performance is primarily the result of three factors: an improvement in weather conditions in 1998 relative to 1997, the implementation of new marketing strategies and a continuation of cost-containment measures initiated by management. However, there can be no assurance that continued improvement will be realized.

INTERNATIONAL GAMING OPERATIONS

As discussed on page 9, the Company plans to divest from its Latin American gaming operations. The Company is currently in the early stages of planning for the divestiture of Latin American assets. Because such efforts are preliminary

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to date, the following discussion excludes specific divestiture plans. When the Company determines a specific divestiture plan, additional restructuring charges may be incurred.

PERU. The Company operates gaming halls and route operations in Peru. In the fall of 1996, the Peruvian government announced that it would implement regulatory changes in conjunction with the transfer of gaming regulatory authority to the federal government and imposed a 200% increase in the per-machine tax which became effective in October 1996. Among other regulatory changes announced in

January 1997 were (i) minimum machine requirements at gaming halls (in Lima, gaming halls must have at least 120 machines per location and gaming halls in other cities must have at least 80 machines per location); and (ii) a requirement that machine refurbishments must be certified by manufacturers and that all machines show pay tables in Spanish. The Company continues its efforts to comply with these requirements and expects to be in full compliance within the time frame allowed by the regulators.

Revenue decreased 16% to $3.2 million in 1998 compared to $3.8 million in 1997. The revenue decrease is primarily attributed to increased competitive factors and to economic effects associated with severe weather conditions related to "El Nino". Direct operating costs decreased 6% to $4.1 million in 1998 compared to $4.4 million in 1997. The number of machines in operation at June 30, 1998 was approximately 1,380 at 15 locations compared to approximately 940 machines at 15 locations at June 30, 1997.

BRAZIL. The Company established a gaming hall with 200 machines in the Arpoador district of Rio de Janeiro in June 1996. In December 1997, the agreement between the Company and the owners of the gaming hall was revised such that the operation is now a route operation with 172 machines. Revenue decreased 7% to $1.3 million in 1998 compared to $1.4 million in 1997. Direct costs decreased 9% to $1.3 million in 1998 compared to $1.4 million in 1997.

ECUADOR. The Company operates a casino in Quito, Ecuador which has 150 machines and 12 table games. Revenue remained steady at $0.5 million in both 1998 and 1997. Direct costs associated with the operation were $0.4 million in both 1998 and 1997. In the second quarter of 1998, new regulations, pertaining to minimum capital investment, citizenship of top management and hours of operation among other matters, were issued for the operation of casinos and bingo parlors. Their applicability to the Company's operation are under review by legal advisors in Ecuador. Compliance with these new regulations is required in the fourth quarter of 1998.

WIDE AREA PROGRESSIVE SYSTEMS

Wide area progressive systems revenue increased 13% to $3.9 million in 1998 compared to $3.5 million in 1997. The increase was the result of an increase in both the number of systems offered and the number of machines on such systems. Comparing June 30, 1998 to June 30, 1997, the Company implemented systems in one additional state, Minnesota; six new systems became operational, WHEEL OF GOLD, HIGH ROLLERS, TOTEM POLE, JEOPARDY, and two twenty-five cent WHEEL OF FORTUNE systems; and the number of machines on the systems increased to approximately 1,800 from approximately 1,480. At June 30, 1998, the Company offered wide area progressive systems in Arizona (which permits the operation of intrastate systems in lieu of interstate systems), Connecticut, Iowa, Kansas, Louisiana, Michigan, Minnesota, New Mexico, North Dakota, Oregon, South Dakota and Wisconsin. At June 30, 1998, 16 systems were in operation: MEGABUCKS (one interstate and one intrastate), DOLLARS DELUXE, FABULOUS 50'S, QUARTERMANIA (one interstate and two intrastate), NICKELMANIA, WHEEL OF FORTUNE in both dollar (one interstate and one intrastate) and twenty-five cent denominations (one interstate and one intrastate, which both began operating in June 1998), WHEEL OF GOLD (which began operating in July 1997), HIGH ROLLERS (which began operating in August 1997), TOTEM POLE (which began operating in December 1997) and JEOPARDY (which began operating in January 1998).

Based on current market trends, the Company anticipates increased revenue from its wide area progressive systems as it proceeds with its strategy to place additional systems and machines in jurisdictions permitting the operation of wide area progressive systems. However, there can be no assurance that casinos will continue

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adding systems and machines or that necessary regulatory approvals will be obtained in prospective jurisdictions. Furthermore, public acceptance of these systems and the entry of competing systems of other gaming companies could affect the Company's future revenue from wide area progressive systems.

FINANCING INCOME

Financing income results from interest income on notes receivable, fees charged in association with financing arrangements and the Company's portion of the management fee from Harrah's Entertainment, Inc.'s (Harrah's) Phoenix Ak-Chin casino and entertainment facility. Financing income increased 44% to $2.6 million in 1998 compared to $1.8 million in 1997. This increase is primarily due to $0.7 million in financing fees recognized in 1998 for arranging financing for casino projects. There were no fees recognized in the second quarter of 1997 for such services.

The Company recognized revenue of $0.4 million in 1998 compared to $0.5 million in 1997 as its share of Harrah's management fee from the Harrah's Phoenix Ak-Chin casino located near Phoenix, Arizona (Harrah's is a 14% shareholder of the Company). This fee is earned in conjunction with financing guaranties provided to Harrah's by the Company during the initial development and early phases of the facility. The guaranty expired in 1996 when the loan was paid in full. As consideration for the loan guaranty, the Company receives, from Harrah's, 4% of the distributable net income of the gaming operation over the term of the management contract and any extensions thereto. The current management agreement expires December 1999. There can be no assurance that Harrah's management contract will be extended or that the terms of any extension will not be materially changed.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased 8% to $4.9 million in 1998, from $5.3 million in 1997. As a percent of total revenue, selling, general and administrative expenses decreased to 13.5% in 1998 compared to 15.9% in 1997.

RESTRUCTURING CHARGES

Severance costs of $1.1 million were incurred in the second quarter of 1998 in conjunction with the Company's announced restructuring (see page 9 for discussion).

INTEREST AND FINANCING COSTS

Interest and financing costs were $0.8 million in both 1998 and 1997. The Company believes that interest and financing costs may increase in future periods as the Company pursues its growth strategy.

INCOME FROM OPERATIONS

The cumulative effect of the above described changes resulted in a 58% increase in income from operations of $4.5 million in 1998, compared to $2.8 million in 1997. As a percent of total revenue, income from operations increased to 12.5% in 1998, from 8.5% in 1997. The increase in the operating margin was primarily the result of increased revenues from wide area progressive systems, improved operating results at the MISS MARQUETTE and increased financing income, offset partially by lower operating margins in Peru and the restructuring charges.

OTHER

Earnings before income taxes increased 59% to $4.5 million in 1998, compared to $2.9 million in 1997. Provision for income taxes was $1.7 million in 1998, compared to $1.2 million in 1997, representing 37% and 42% of earnings before income taxes for 1998 and 1997, respectively.

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RESULTS OF OPERATIONS - SIX MONTHS ENDED JUNE 30, 1998
COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1997

Earnings before cumulative effect of accounting change for the six months ended June 30, 1998 increased 114% to $4.8 million, or $0.21 per share, compared to $2.3 million, or $0.10 per share, for the six months ended June 30, 1997. Excluding the aforementioned restructuring charge pertaining to severance costs, net earnings would have been $5.5 million, or $0.24 per share (see page 9 for discussion).

The primary factors causing the increase in earnings were increased revenues from wide area progressive systems, improved operating results at the MISS MARQUETTE and increased financing income. Total revenue increased 6% to $65.9 million in 1998, compared to $62.4 million in 1997. Total costs and expenses decreased 1% to $58.2 million in 1998, compared to $59.1 million in 1997. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 42% to $12.4 million in 1998 compared to $8.8 million in 1997. EBITDA is a commonly used calculation to measure operating performance. The Company includes EBITDA in its results of operations to assist interpretation of financial performance; however, the Company's principal financial measures are net earnings and earnings per share.

On January 1, 1997, the Company recognized a $3.1 million charge (net of $1.3 million income tax effect) related to a cumulative effect of an accounting change as described in Note 2 to the consolidated financial statements.

PRODUCT SALES

Revenue from product sales was $25.7 million in both 1998 and 1997. Machine sales revenue increased 7% to $19.8 million in 1998 compared to $18.6 million in 1997 (which included $0.4 and $5.3 million of used machine sales in 1998 and 1997, respectively). This increase was offset by a 16% decrease in ancillary gaming and non-gaming related product sales revenue to $5.9 million in 1998 compared to $7.1 million in 1997. In 1998, the Company is continuing its strategy of being a full-service provider to its customers by offering an extensive product line which includes gaming-related and non-gaming related products and supplies.

New gaming machine shipments increased 23% to 2,580 machines in 1998 compared to 2,100 machines in 1997. In 1998, 77% of the new machine shipments were to casinos in Kansas, Michigan, Minnesota, New Mexico, and Wisconsin. In 1997, 75% of the new machine shipments were to casinos in Connecticut, Iowa, Kansas, Michigan and Wisconsin. Growth of gaming in Native American jurisdictions is outside the control of the Company and is influenced by the legal, electoral and regulatory processes of those jurisdictions. In 1998, the Company sold 230 used machines, compared to 1,810 in 1997.

The cost of product sales decreased 2% to $19.6 million in 1998, from $20.0 million in 1997. The gross margin on product sales increased to 24.0% in 1998 as compared to 22.2% in 1997. The increase in gross margin is due primarily to the sale of $3.4 million of used machines at approximate cost in the first quarter of 1997.

GAMING OPERATIONS

Gaming operations revenue increased 4% to $27.9 million in 1998, from $26.8 million in 1997. This increase was attributable to an increase in revenue from the MISS MARQUETTE, which was partially offset by reduced revenue in Peru. Direct costs of gaming operations decreased 2% to $26.3 million in 1998, compared to $26.9 million in 1997. The decrease was attributed to decreased costs at the MISS MARQUETTE and in Peru.

DOMESTIC GAMING OPERATIONS

MISS MARQUETTE. Revenue increased 13% to $17.6 million in 1998 compared to $15.5 million in 1997. Direct operating costs decreased 2% to $14.6 million in 1998, from $14.9 million in 1997. The improvement in operating performance is primarily the result of three factors: an improvement in weather conditions in 1998 relative to 1997, the implementation of new marketing strategies and a continuation of cost-containment measures initiated by management. However, there can be no assurance that continued improvement will be realized.

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INTERNATIONAL GAMING OPERATIONS

As discussed on page 9, the Company plans to divest from its Latin American gaming operations. The Company is currently in the early stages of planning for the divestiture of Latin American assets. Because such efforts are preliminary to date, the following discussion excludes specific divestiture plans. When the Company determines a specific divestiture plan, additional restructuring charges may be incurred.

PERU. Revenue decreased 15% to $6.5 million in 1998 compared to $7.6 million in 1997. The revenue decrease is primarily attributed to increased competitive factors and to economic effects associated with severe weather conditions related to "El Nino". Direct operating costs decreased 4% to $8.1 million in 1998 compared to $8.4 million in 1997.

BRAZIL. Revenue increased 3% to $2.8 million in 1998 compared to $2.7 million in 1997. Direct costs were $2.7 million in both 1998 and 1997.

In 1996, the Company entered into an agreement with the Confederacao Brasileira de Futebol (CBF, or the Brazilian Soccer Federation) to own and operate linked progressive video gaming systems in Brazil. Subsequent to that agreement the Company entered into a joint venture agreement with IGT and the Dreamport division of GTECH Holdings Corporation to proceed with the development and operations of this system. In the first quarter of 1998, the Company, IGT and Dreamport mutually agreed to terminate the joint venture on terms provided in the agreement, due to ongoing uncertainties pertaining to the regulatory status of the proposed gaming operations.

In late March 1998, the President of Brazil signed legislation known as "Lei Pele," which among other provisions, may change the regulatory status that allowed qualified sports organizations to sponsor video gaming operations. The enactment of this law could make the Company's involvement with both the proposed CBF video gaming project and the Arpoador video bingo hall uncertain. However, there are efforts under way proposing regulations under the new law which may authorize continued operations at the Arpoador gaming hall.

ECUADOR. Revenue increased 17% to $1.1 million in 1998 compared to $1.0 million in 1997. Direct costs associated with the operation were $0.9 million in both 1998 and 1997.

WIDE AREA PROGRESSIVE SYSTEMS

Wide area progressive systems revenue increased 28% to $7.6 million in 1998 compared to $5.9 million in 1997. The increase was the result of an increase in both the number of systems offered and the number of machines on such systems. Comparing June 30, 1998 to June 30, 1997, the Company implemented systems in one additional state, Minnesota; six new systems became operational, WHEEL OF GOLD, HIGH ROLLERS, TOTEM POLE, JEOPARDY, and two twenty-five cent WHEEL OF FORTUNE systems; and the number of machines on the systems increased to approximately 1,800 from approximately 1,480. See page 10 for additional discussion.

FINANCING INCOME

Financing income increased 14% to $4.6 million in 1998 compared to $4.1 million in 1997. This increase is primarily due to $0.8 million in financing fees recognized in 1998 for arranging financing for casino projects. Fees recognized in the first six months of 1997 for such services amounted to $0.5 million. The Company recognized revenue of $0.9 million in 1998 compared to $1.0 million in 1997 as its share of Harrah's management fee from the Harrah's Phoenix Ak-Chin casino.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased 11% to $9.5 million in 1998, from to $10.6 million in 1997. As a percent of total revenue, selling, general and administrative expenses decreased to 14.4% in 1998 compared to 17.1% in 1997.

RESTRUCTURING CHARGES

Severance costs of $1.1 million were incurred in the second quarter of 1998 in conjunction with the Company's announced restructuring (see page 9 for discussion).

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INTEREST AND FINANCING COSTS

Interest and financing costs increased 8% to $1.8 million in 1998, compared to $1.6 million in 1997. The increase in interest and financing costs was primarily the result of increased first quarter borrowings during 1998 to fund working capital needs. The Company believes that interest and financing costs may increase in future periods as the Company pursues its growth strategy.

INCOME FROM OPERATIONS

The cumulative effect of the above described changes resulted in a 130% increase in income from operations of $7.7 million in 1998, compared to $3.3 million in 1997. As a percent of total revenue, income from operations increased to 11.6% in 1998, from 5.3% in 1997. The increase in the operating margin was primarily the result of increased revenues from wide area progressive systems, improved operating results at the MISS MARQUETTE and increased financing income, partially offset by lower operating margins in Peru and the restructuring charges.

OTHER

Other income decreased $0.5 million in 1998 due to a gain on sale of receivables of $0.5 million earned in 1997. Earnings before income taxes and cumulative effect of accounting change increased 99% to $7.7 million in 1998, compared to $3.9 million in 1997. Provision for income taxes was $2.9 million in 1998, compared to $1.6 million in 1997, representing 38% and 42% of earnings before income taxes for 1998 and 1997, respectively.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL

Working capital increased $4.6 million to $26.2 million during the six months ended June 30, 1998. This increase was due to a $10.7 million decrease in current liabilities which was partially offset by a $6.1 million decrease in current assets.

CASH FLOWS

During the six months ended June 30, 1998, the Company's cash and cash equivalents increased $3.0 million to $6.9 million. Cash provided by operating activities was $16.9 million in 1998 compared to $1.5 million provided in 1997. The cash flows from operations for 1998 were primarily affected by net earnings, depreciation, and changes in receivables, inventories, accounts payable and accrued liabilities.

Cash used in investing activities amounted to $8.0 million in 1998 and $7.4 million in 1997. Cash used in investing activities consisted primarily of $6.6 million and $3.9 million advanced on notes receivable for customer financing in 1998 and 1997, respectively; and $4.6 million and $5.0 million used to purchase property and equipment in 1998 and 1997, respectively. The 1998 property and equipment purchases were primarily attributable to costs associated with 1) the development of a new Company-wide information system, and 2) expenditures for gaming operations equipment at the MISS MARQUETTE and in Peru. Cash used in investing activities was partially offset by $2.5 million and $1.7 million in payments received on notes receivable from customer financing in 1998 and 1997, respectively.

Financing activities used $6.0 million cash in 1998 compared to providing $7.8 million in 1997. Cash flows from financing activities in both 1998 and 1997 consisted of proceeds from borrowings on the Company's revolving credit facility, net of principal repayments on the revolving credit facility and other long-term debt.

INDEBTEDNESS/LINES OF CREDIT

The Company had $17.5 million of debt outstanding at June 30, 1998. Of that amount, $8.3 million was borrowed under a long-term revolving credit facility from a syndicate of banks. The revolving line has two components, a $20 million tranche (Tranche A) to be used for general corporate purposes and letters of

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credit, and a $30 million tranche (Tranche B) for acquisitions and major capital equipment expenditures. Since June 1997, the amount available under Tranche B is being reduced by $1.875 million quarterly. As a result, the maximum credit amount under the revolving credit facility was $40.6 million at June 30, 1998. Tranche A matures in February 1999, plus two one-year renewal options subject to bank approval, and Tranche B matures in February 2001. The unused portion of the revolving credit facility is subject to a commitment fee, based upon a calculation as defined in the revolving credit agreement. Interest is payable based on variable rates which, at the Company's option, are based on the prime rate or a Eurodollar rate plus an applicable margin. Amounts borrowed are secured by substantially all Company assets, excluding real estate, but including a first preferred ship mortgage on the MISS MARQUETTE riverboat. In addition to the loans outstanding, the Company had $8.6 million in letters of credit outstanding at June 30, 1998.

In July 1997, the Company entered into a sale-leaseback arrangement involving the sale of certain MISS MARQUETTE furniture and equipment for $7.5 million, which approximated book value at the time of sale.

The transaction was accounted for as a financing, whereby the property remains on the books and continues to be depreciated. A financing obligation representing the proceeds was recorded and is reduced based on payments made under the arrangement. As of June 30, 1998, approximately $6.3 million related to this financing obligation is included in debt outstanding. The financing arrangement requires the Company to make monthly payments of approximately $233,000 through July 2001. Upon expiration of the arrangement, the Company will own the furniture and equipment.

Of the remaining $2.9 million of debt, $1.7 million relates to debt payable to the former shareholders of Gamblers Supply Management Company (the Company-owned subsidiary which operates the MISS MARQUETTE), $0.8 million relates to various other debt secured by certain property of the MISS MARQUETTE and $0.4 million is secured by certain transportation equipment.

CAPITAL COMMITMENTS

In September 1994, Sodak assisted a casino management company, Royal Associates Management, Inc. (Royal), in acquiring $8 million in financing from a financial institution. The Company also guaranteed the debt. The loan was used to construct Phase II of the Cypress Bayou Casino owned by the Chitimacha Tribe of Louisiana. The loan guaranty agreement was revised in December 1997, allowing Royal to re-borrow prepaid amounts with a maximum allowable loan balance of $4.3 million. In return for the guaranty, the Company receives a loan guaranty fee based on a percentage of the outstanding loan balance, and additionally, a lesser percentage of the unused maximum allowable loan balance. As of June 30, 1998, the outstanding loan balance was $2.2 million.

In October 1997, the Company entered into an agreement with Hollywood Casino Corporation (Hollywood) and New Orleans Paddlewheels to develop a riverboat casino, hotel and retail complex in Shreveport, Louisiana. The proposed project, to be managed by Hollywood, is pending regulatory approval by the Louisiana Gaming Control Board (LGCB). The project is to be financed by an equity investment from the joint venture partners equal to approximately 25% of the total estimated project cost; the remaining 75% is anticipated to be financed through a debt offering or other credit facility. The project is estimated to cost approximately $170 million. The Company's participation in the project is contingent upon 1) obtaining regulatory approval of the project by the LGCB; 2) the Company's obtaining a gaming license in Louisiana; and 3) the joint venture's obtaining necessary debt financing. Construction is expected to commence upon finalization of regulatory approvals and financing arrangements and is expected to take approximately 15 months. However, there can be no assurance that regulatory approvals and financing arrangements will be obtained.

INTERNATIONAL OPERATIONS

Approximately 16% of total revenue for the six months ended June 30, 1998 was derived outside of the United States, compared to 18% for the six months ended June 30, 1997. International operations are subject to certain risks, including but not limited to unexpected changes in regulatory requirements, fluctuations in exchange rates, tariffs and other barriers, and political and economic instability. There can be no assurance that these factors will not have

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an adverse impact on the Company's operating results. To date, the Company has not experienced significant translation or transaction losses related to foreign exchange fluctuations due to the limited size of its international operations. As the Company divests from its international operations, exposure to gains and losses on foreign currency transactions may decrease.

IMPACT OF INFLATION

Inflation did not have a significant effect on the Company's operations during the six months ended June 30, 1998.

YEAR 2000 COMPLIANCE

In conjunction with the development of a Company-wide information system, the Company anticipates to be in compliance with Year 2000 requirements. Costs related to compliance are not expected to be significant.

CAUTIONARY NOTICE

This report contains forward-looking statements reflecting the Company's expectations or beliefs concerning future events which could materially affect Company performance in the future. Terms indicating future expectation, optimism about future potential, anticipated growth in revenue, earnings of the Company's business lines and like expressions typically identify such statements. Actual results and events may differ significantly from those discussed in forward-looking statements.

All forward-looking statements are subject to the risks and uncertainties inherent with predictions and forecasts. They are necessarily speculative statements, and unforeseen factors, such as competitive pressures, changes in regulatory structure, failure to gain the approval of regulatory authorities, changes in customer acceptance of gaming, general risks associated with the conduct of international business (such as foreign currency exchange rate fluctuation, changes of governmental control or laws, changes in relations between the United States and other countries, or changes in economic conditions) could cause results to differ materially from any that may be expected.

Forward-looking statements are made in the context of information available as of the date stated. The Company undertakes no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On April 26, 1994, William Poulos filed a class action lawsuit in the United States District Court for the Middle District of Florida, Case No. 94-478-CIV-ORL-22 (the Poulos case). The Complaint in the Poulos case alleges violations of 18 U.S.C. ss. 1962(a), (c), and (d), the Racketeering Influenced and Corrupt Organizations Act, and pendent state law claims. The approximately 41 named defendants in the Poulos case consist of the manufacturers and distributors of electronic gaming devices, and companies who are parents and/or affiliates of the entities which operate and/or provide the electronic gaming devices for play by the public.

On May 10, 1994, William Ahearn filed a class action lawsuit in the United States District Court for the Middle District of Florida, Case No. 94-532-CIV-ORL-22 (the Ahearn case). The named defendants and claims made in the Poulos and Ahearn cases are virtually identical.

On June 30, 1994, the Poulus and Ahearn cases were consolidated. On December 9, 1994, the Poulos and Ahearn cases were transferred to the United States District Court for the District of Nevada pursuant to 28 U.S.C. ss. 1404(a). On November 29, 1994, William Poulos filed a second class action lawsuit in the United States District Court for the Middle District of Florida, Case No. 94-1259-CIV-ORL-22 (the Cruise Ship case). The allegations made in the

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Cruise Ship case are virtually identical to the allegations in the Poulos and Ahearn cases. The defendants in the Cruise Ship case consist of manufacturers and distributors of electronic gaming devices, and the operators of cruise ships and cruise ship casinos where the devices are expose for play by passengers. On September 14, 1995, the Cruise Ship case was transferred to the United States District Court for the District of Nevada pursuant to 28 U.S.C. ss. 1404(a). On September 26, 1995, Larry Schreier filed a class action lawsuit in the United States District Court for the District of Nevada. Except for alleging a smaller and more precisely defined class of plaintiffs, the Schreier case is virtually identical to the Poulos and Ahearn cases. The Poulos, Ahearn, Schreier, and Cruise Ship cases have been consolidated and assigned to visiting United States District Court Judge David A. Ezra. Sodak is a named defendant in the Poulos, Ahearn, and Schreier cases. The plaintiffs allege that the defendants actions constitute violations of the Racketeer Influenced and Corrupt Organizations Act (RICO) and give rise to claims of common law fraud and unjust enrichment. The plaintiffs are seeking monetary damages in excess of $1 billion and are asking that any damage awards be trebled under applicable federal law.

The Defendants argued a variety of motions to dismiss and also procedural motions before the Court on November 3, 1997. The Court ruled on the same issuing various Orders which were entered and served on December 19, 1997. The most significant rulings were that the Court ordered Plaintiffs to file an Amended Complaint by January 9, 1998, and the Plaintiffs wire fraud count against Defendants was dismissed with prejudice (cannot be relitigated). On March 19, 1998 the Court granted Defendant's Motion to Bifurcate Discovery and to Stay Merits Discovery until the Court decides the Plaintiff's Motion for Class Certification.

The Defendant's Class Discovery responses are substantially complete. However, it is anticipated that Plaintiffs will move to compel certain answers that were objected to and not produced. On the other hand, Defendants moved to compel discovery against the Plaintiffs. On June 4, 1998, the magistrate judge granted 29 of 33 discovery requests against Plaintiffs. This ruling will necessarily delay the completion of class discovery. At mid-July depositions of the class representatives were beginning to take place. The Defendant's Opposition to Motion of Class Certification is due approximately at the end of July and Plaintiff's Reply due approximately the middle of August.

The Company believes the Consolidated action is without merit. The Company is vigorously pursuing all legal defenses available to it and is participating in the defense through counsel and the defendants steering committee created pursuant Court Order.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

The Company held its annual meeting of shareholders on May 7, 1998 for the purposes of electing members of the Board of Directors of the Company and to ratify the selection of KPMG Peat Marwick LLP as independent auditors of the Company for the fiscal year ending December 31, 1998.

There were 22,758,408 shares of Common Stock entitled to vote at the meeting and a total of 21,768,719 shares (95.65%) were represented at the meeting. The shareholder voting was as follows:

1. Election of Directors:

	FOR	WITHHOLD AUTHORITY
Michael G. Wordeman	21,664,720	103,999
Roland W. Gentner	21,664,520	104,199

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Thomas Celani	21,668,120	100,599
Colin V. Reed	21,668,970	99,749
Manuel Lujan, Jr.	21,667,922	100,797
Ronnie Lopez	21,666,770	101,949

2. To ratify the selection of KPMG Peat Marwick LLP as independent auditors of the Company for the fiscal year ending December 31, 1998:

For - 21,738,743 Against -18,886 Abstain - 11,090 Broker Non-Vote - 0

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

10.14 Agreement between Sodak Gaming, Inc. and Michael G. Wordeman dated June 17, 1998.

b. Reports on Form 8-K

None.

Signatures

Pursuant to the requirements 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.

Date: July 21, 1998

SODAK GAMING, INC.

By: \s\ Clayton R. Trulson

Clayton R. Trulson
Vice President of Finance
and Treasurer

EXHIBIT INDEX

Sequentially

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Exhibit Number		Numbered Page
10.14	Agreement between Sodak Gaming, Inc. and Michael G. Wordeman dated June 17, 1998	22
27	Financial Data Schedule (submitted with the EDGAR filing only)	

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Exhibit 10.14

AGREEMENT

The purpose of this Agreement and General Release ("Agreement") is to confirm the agreed upon terms, conditions, and arrangements regarding the separation of Michael G. Wordeman ("Executive") on behalf of himself, his spouse, his heirs, executors, administrators, successors, assigns, and/or derivatively on behalf of the Company, from his employment with Sodak Gaming, Inc. and all its subsidiaries and affiliates ("Company").

WHEREAS:

A. Executive has been advised by the Company, orally and by this written statement, to CONSULT WITH AN ATTORNEY before he signs this Agreement.

B. Executive entered into and executed a written Employment Agreement on J une 30, 1993 with the Company. A true and correct copy of which is attached hereto as Exhibit A .

C. Executive has submitted a letter of resignation from employment with the Company and the Company has agreed to accept his resignation, a true and correct copy of his letter of resignation is attached hereto marked Exhibit B .

D. Executive agrees to remain on the Company's Board of Directors and, acknowledges and understands conduct as a Board member is governed by the fiduciary obligations thereby incurred including but not limited to the Doctrine of Corporate Opportunity, Duty of Care, Duty of Loyalty, Confidentiality and the Business Judgment Rule.

In consideration of the mutual promises and agreements herein contained, Executive and the Company agree as follows:

1. Termination. Executive's Employment Agreement dated June 30, 1993 which expires June 30, 1999 is hereby terminated.

2. Separation Date. Executive's LAST DAY OF WORK, which shall also be referred to as the Separation Date, will be June 30, 1998, and he has no present or future right to further employment with the Company.

3. Severance Pay. Executive upon his separation date, shall receive the following:

a. As consideration for termination of Executive'sEmployment Agreement and the Noncompetition Covenant contained herein, a lump sum payment in an amount equal to Two (2) Years of his present base salary after applicable federal tax withholdings and deductions have been deducted from said amount.

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b. Health insurance until May 31, 2000 in accordance with Company policy for senior management as such policies as may be amended from time to time. The Company shall convert Executive's membership to Arrowhead Country Club to Executive's personal ownership on or before June 30, 1998. Executive shall purchase the Company vehicle assigned to him on or before June 30, 1998 for an amount equal to the lower of the Company's book value or the wholesale Blue Book value of such vehicle. Upon receipt of payment for such vehicle, the Company shall pay Executive a lump sum car allowance in the amount of Thirteen Thousand Two Hundred Twenty Five ($13,225.00) Dollars.

c. A grant of 10,000 stock options pursuant to the Company's 1993 Director's Stock Option Plan with an exercise price of the market price established by the last sale price on NASDQ on June 30, 1998.

d. Two annual travel budgets of $25,000 per consecutive year. Executive shall have access to the Corporate aircraft for personal use until (a) May 31, 2000 or (b) Executive ceases to be a member of the Company's Board of Directors, whichever event first occurs. Personal use access is subject to availability. Executive's personal use of the Company aircraft shall be charged against the travel budget on an hourly fixed cost basis as such cost shall be determined by the company and may be adjusted from time to time. Company business use of the aircraft shall be as authorized by the CEO. All business expenses incurred by Executive require approval of the Chairman of the Board Audit Committee prior to reimbursement or charge against Executive's Travel Budget. If Executive ceases to be a member of the Company's Board of Directors prior to May 31, 2000, any unused portion of the annual budget shall be paid to Executive, if Executive is a member of the Company's Board of Directors on May 31, 2000, any unused travel budget shall revert to the Company.

e. A lump sum payment of One Hundred Twenty Five Thousand Dollars ($125,000) for office facility expenses.

4. Confidential and Proprietary Information. Executive shall not at any time before two (2) years from the Separation Date, make available either directly or indirectly, to any competitor or potential competitor of the Company, or divulge, disclose, or communicate to any person, firm, corporation, or other business entity in any manner whatsoever, any confidential or proprietary information of the Company unless expressly authorized to do so by

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the Company in writing. The Company shall provide Executive all documents and information necessary to perform the function of Chairman of the Board of Directors.

5. Cooperation. Executive agrees not to cause, encourage or participate in any LEGAL PROCEEDINGS against the Company, its parent, subsidiaries, affiliates, officers, directors, agents, benefit plan trustees, and employees ("Released Parties") with respect to Executive's employment by the Company, except to enforce this Agreement. Executive shall cooperate and give information necessary to any internal investigation or inquiry made by the Company and/or relating to any lawsuit against and/or by the Company of which Executive may have material knowledge, or be a potential witness.

6. Understanding.

Executive acknowledges that the nature and extent of the benefits made available to him have been EXPLAINED and that he UNDERSTANDS them. It is agreed that these benefits are being received IN EXCHANGE FOR A FULL AND COMPLETE RELEASE of all federal and state claims of any country and of any kind which he may have against the Company based upon his employment with the Company; that he intends to be bound by this release; that he has entered into this release knowingly and voluntarily and after having the opportunity to review its terms with a lawyer; and that the terms and conditions of this release were the result of full discussions and negotiations between the parties.

7. No Admission of Liability. Executive also hereby agrees that nothing contained in this Agreement is, or is to be treated as, an admission of liability or wrongdoing by the Company or by the Executive and that no ultimatums were given by either party.

8. Governing Law. All disputes under this Agreement will be settled by mediation and if necessary arbitration both in the County of Pennington, State of South Dakota, in accordance with the rules of the American Arbitration Association, or its successor, and judgment upon the award rendered may be entered in any court with jurisdiction.

9. Noncompetition Covenant. Executive agrees that for a term of two (2) years after his separation date he nor any of his affiliates (defined as any Company or business entity of which Executive directly or indirectly owns 10% or more equity interest or financing debt), shall not, without the written consent of the Company's Board of Directors (determined by majority vote excluding Executive should he be serving on said Board), directly or indirectly, engage in competition with the Company in any manner or capacity (e.g., as an advisor, principal, agent, partner, officer, director, stockholder, employee, member of any association, or otherwise) in any phase of the past, current or next two years business which the Company is conducting in South Dakota, North Dakota, Wyoming, Native American jurisdictions (except and excluding Nevada, New Jersey, and Hawaii), including the distribution, marketing, leasing, or selling of

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accessories, devices, or systems related to the products or services being sold by the Company. Executive further agrees (under the same terms and conditions previously stated in this Paragraph 9) to not engage in any gaming operation that competes with the Company within one hundred (100) miles of the Miss Marquette Riverboat in Iowa, the Ak Chin Indian Gaming Casino in Arizona, the Penticton Casino Project in B.C. Canada, and the Shreveport Riverboat Project in Louisiana.

10. Miscellaneous.

10.01 Prior Agreements. This Agreement contains the entire agreement of the parties relating to the employment of Executive as CEO and the subject matter hereof and supersedes all prior agreements and understandings with respect to such employment of Executive as CEO and the subject matter, and the parties hereto have made no agreements, representations, or warranties relating to the employment of Executive as CEO and the subject matter of this Agreement which are not set forth herein.

10.02 Withholding Taxes. The Company may withhold from any benefits payable under this Agreement all federal, state, city, or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

10.03 No Waiver. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel to enforce any provisions of this Agreement, except by a statement in writing signed by the party against whom enforcement of the waiver or estoppel is sought. Any written waiver shall not be deemed a continuing waiver unless specifically stated, shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

10.04 Severability. To the extent any provision of this Agreement shall be invalid or unenforceable, it shall be considered deleted herefrom and the remainder of such provision and of this Agreement shall be unaffected and shall continue in full force and effect. In furtherance and not in limitation of the foregoing, should the duration or geographical extent of, or business activities covered by, any provision of this Agreement be in excess of that which is valid and enforceable under applicable law, then such provision shall be construed to cover only that duration, extent, or activities which may validly and enforceably be covered. Executive acknowledges the uncertainty of the law in this respect and expressly stipulates that this Agreement be given the construction which renders its provisions valid and enforceable to the maximum extent (not exceeding its express terms) possible under applicable law.

10.05 Assignment. This Agreement shall be assignable, in whole or in part, by the Company without

the consent of Executive. After any such assignment by the Company, the Company

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shall be discharged from all further liability hereunder and such assignee shall thereafter be deemed to be the Company for the purposes of all provisions of this Agreement including this Section 12.05.

10.06 Injunctive Relief. The Parties agree that it would be difficult to compensate the other party fully for damages for any violation of the provisions of this Agreement, including without limitation the provisions of Sections 3, 9, 10, and 11. Accordingly, each party specifically agrees that the other party shall be entitled to temporary and permanent injunctive relief to enforce the provisions of this Agreement and that such relief may be granted without the necessity of proving actual damages. This provision with respect to injunctive relief shall not, however, diminish the right of either party to claim and recover damages in addition to injunctive relief.

11. Execution of Documents. Executive agrees to cooperate and execute any and all documents at any time requested by the Company that may be necessary to or for, resign any position held by him on behalf of the Company, and any of its subsidiaries including but not exclusively Sodak Gaming International, Inc., S. G. International, Inc., Sodak Gaming do Brasil, Ltda, Sodak Gaming Peru, S. A., Eucasodak, S. A., Sodak Gaming Colorado, Gamblers Supply Management Company, Sodak Gaming Mississippi, Sodak Gaming Texas, Sodak Louisiana, L. L. C., the Company's SEC filings, investigative, regulatory and/or legal investigations and disclosures.

In consideration of the receipt of the benefits described above, and except for claims related to the obligations of the parties under this Agreement, Executive RELEASES the Company and its subsidiaries and affiliates, and their officers, directors, agents, benefit plan trustees, and employees from, any and all claims whether known or unknown, related to Executive's Employment Agreement, salary, bonus, stock, vacation, the Age Discrimination of Employment Act of 1967, as amended, the Americans With Disabilities Act, the Civil Rights Act of 1866, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and any other state or federal laws of any country and regulations relating to employment or employment discrimination. The Company releases Executive from any and all claims, whether known or unknown, related to the Executive's Employment Agreement as CEO.

Date delivered to Executive: 6/16/98

MICHAEL G. WORDEMAN

/s/ Mike Wordeman

Date: 6/17/98

SODAK GAMING, INC.

By: /s/ Michael G. Diedrich

Its: VP General Counsel

Date: 6/17/98

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State of South Dakota)
)ss.
County of)

On this the 17th day of June , 1998, before me, the undersigned Notary Public, personally appeared Michael G. Wordeman, known to me or satisfactorily proven to be the person whose name is subscribed to the within instrument and acknowledged that he executed the same for the purposes therein contained.

In Witness Whereof, I hereunto set my hand and official seal.

/s/ George Grassby

Notary Public-South Dakota

My Commission Expires 6/2/05

(SEAL)

State of South Dakota)
)ss.
County of Pennington)

On this the 17th of June, 1998, before me, the undersigned officer, personally appeared Michael G. Diedrich, who acknowledged himself to be the Vice President and General Counsel of Sodak Gaming, Inc., a corporation, and that he, as such Vice President and General Counsel, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as Vice President and General Counsel.

In Witness Whereof, I hereunto set my hand and official seal.

/s/ Susan M. Thayer

Notary Public-South Dakota

My Commission Expires 12/28/00

(SEAL)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF SODAK GAMING, INC.'S FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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