

BALLY TECHNOLOGIES, INC.

Form 10-Q

May 07, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission File Number 001-31558

BALLY TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

88-0104066

(I.R.S. Employer Identification No.)

6601 S. Bermuda Rd.

Las Vegas, Nevada 89119

(Address of principal executive offices)

(702) 584-7700

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer
(do not check if a smaller reporting company)

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of Common Stock, \$0.10 par value, outstanding as of May 2, 2012, was 43,102,000 which do not include 19,739,000 shares held in treasury.

Table of Contents

TABLE OF CONTENTS

| | Page |
|--------------------------|--|
| <u>PART I.</u> | <u>3</u> |
| | <u>FINANCIAL INFORMATION</u> |
| <u>Item 1.</u> | <u>3</u> |
| | <u>Financial Statements</u> |
| | <u>3</u> |
| | <u>Unaudited Condensed Consolidated Balance Sheets as of March 31, 2012 and June 30, 2011</u> |
| | <u>4</u> |
| | <u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2012 and 2011</u> |
| | <u>5</u> |
| | <u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended March 31, 2012 and 2011</u> |
| | <u>6</u> |
| | <u>Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended March 31, 2012 and 2011</u> |
| | <u>7</u> |
| | <u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2012 and 2011</u> |
| | <u>9</u> |
| | <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> |
| <u>Item 2.</u> | <u>25</u> |
| | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> |
| <u>Item 3.</u> | <u>34</u> |
| | <u>Quantitative and Qualitative Disclosures About Market Risk</u> |
| <u>Item 4.</u> | <u>35</u> |
| | <u>Controls and Procedures</u> |
| <u>PART II.</u> | <u>36</u> |
| | <u>OTHER INFORMATION</u> |
| <u>Item 1.</u> | <u>36</u> |
| | <u>Legal Proceedings</u> |
| <u>Item 1A.</u> | <u>36</u> |
| | <u>Risk Factors</u> |
| <u>Item 2.</u> | <u>36</u> |
| | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> |
| <u>Item 6.</u> | <u>37</u> |
| | <u>Exhibits</u> |
| <u>SIGNATURES</u> | <u>38</u> |

Table of Contents**PART I****ITEM 1. FINANCIAL STATEMENTS****BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

| | March 31, 2012 | June 30, 2011 |
|--|---------------------------------|------------------|
| | (in 000s, except share amounts) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 35,739 | \$ 66,425 |
| Restricted cash | 12,093 | 8,419 |
| Accounts and notes receivable, net of allowances for doubtful accounts of \$13,712 and \$11,059 | 255,342 | 235,246 |
| Inventories | 81,720 | 68,634 |
| Prepaid and refundable income tax | 15,992 | 36,332 |
| Deferred income tax assets, net | 29,244 | 29,318 |
| Deferred cost of revenue | 15,511 | 13,795 |
| Prepaid assets | 12,873 | 10,524 |
| Other current assets | 5,340 | 4,984 |
| Total current assets | 463,854 | 473,677 |
| Restricted long-term investments | 12,824 | 12,485 |
| Long-term accounts and notes receivables, net of allowances for doubtful accounts of \$3,538 and \$507 | 64,098 | 46,659 |
| Property, plant and equipment, net of accumulated depreciation of \$57,599 and \$51,570 | 30,314 | 33,266 |
| Leased gaming equipment, net of accumulated depreciation of \$181,387 and \$176,137 | 115,377 | 96,691 |
| Goodwill | 168,780 | 162,110 |
| Intangible assets, net | 34,037 | 34,865 |
| Deferred income tax assets, net | 13,316 | 12,120 |
| Income tax receivable | 12,041 | 10,972 |
| Deferred cost of revenue | 18,468 | 23,193 |
| Other assets, net | 23,315 | 21,356 |
| Total assets | \$ 956,424 | \$ 927,394 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 39,573 | \$ 38,411 |
| Accrued and other liabilities | 76,133 | 58,295 |
| Customer deposits | 8,313 | 4,930 |
| Jackpot liabilities | 11,465 | 11,894 |
| Deferred revenue | 38,732 | 28,900 |
| Income tax payable | 1,432 | 3,033 |
| Current maturities of long-term debt | 15,211 | 15,153 |
| Total current liabilities | 190,859 | 160,616 |
| Long-term debt, net of current maturities | 469,000 | 500,250 |
| Deferred revenue | 29,951 | 34,788 |
| Other income tax liability | 11,555 | 9,321 |

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

| | | |
|---|------------|------------|
| Other liabilities | 19,504 | 7,827 |
| Total liabilities | 720,869 | 712,802 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' equity: | | |
| Special stock, 10,000,000 shares authorized: Series E, \$100 liquidation value; 115 shares issued and outstanding | 12 | 12 |
| Common stock, \$.10 par value; 100,000,000 shares authorized; 62,699,000 and 61,541,000 shares issued and 43,251,000 and 44,397,000 outstanding | 6,263 | 6,149 |
| Treasury stock at cost, 19,448,000 and 17,144,000 shares | (717,033) | (634,268) |
| Additional paid-in capital | 477,347 | 442,713 |
| Accumulated other comprehensive loss | (10,937) | (3,064) |
| Retained earnings | 478,374 | 401,363 |
| Total Bally Technologies, Inc. stockholders' equity | 234,026 | 212,905 |
| Noncontrolling interests | 1,529 | 1,687 |
| Total stockholders' equity | 235,555 | 214,592 |
| Total liabilities and stockholders' equity | \$ 956,424 | \$ 927,394 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|-------------------------------------|------------|--------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (in 000s, except per share amounts) | | | |
| Revenues: | | | | |
| Gaming equipment and systems | \$ 136,032 | \$ 110,909 | \$ 370,262 | \$ 308,136 |
| Gaming operations | 92,508 | 80,032 | 263,702 | 236,339 |
| | 228,540 | 190,941 | 633,964 | 544,475 |
| Costs and expenses: | | | | |
| Cost of gaming equipment and systems (1) | 59,046 | 47,275 | 160,220 | 127,262 |
| Cost of gaming operations | 25,017 | 20,906 | 73,107 | 65,820 |
| Selling, general and administrative | 63,764 | 57,562 | 182,290 | 164,361 |
| Research and development costs | 24,838 | 22,088 | 70,601 | 64,832 |
| Depreciation and amortization | 5,648 | 5,208 | 17,089 | 14,579 |
| | 178,313 | 153,039 | 503,307 | 436,854 |
| Operating income | 50,227 | 37,902 | 130,657 | 107,621 |
| Other income (expense): | | | | |
| Interest income | 1,225 | 1,276 | 3,695 | 3,616 |
| Interest expense | (4,150) | (2,855) | (13,232) | (8,885) |
| Other, net | 325 | 1,106 | (2,259) | 2,630 |
| Income from continuing operations before income taxes | 47,627 | 37,429 | 118,861 | 104,982 |
| Income tax expense | (17,713) | (13,651) | (44,254) | (32,283) |
| Income from continuing operations | 29,914 | 23,778 | 74,607 | 72,699 |
| Loss on sale of discontinued operations, net of tax | | | | (403) |
| Net income | 29,914 | 23,778 | 74,607 | 72,296 |
| Less net income (loss) attributable to noncontrolling interests | (53) | 12 | (20) | (511) |
| Net income attributable to Bally Technologies, Inc. | \$ 29,967 | \$ 23,766 | \$ 74,627 | \$ 72,807 |
| Basic earnings per share attributable to Bally Technologies, Inc.: | | | | |
| Income from continuing operations | \$ 0.70 | \$ 0.45 | \$ 1.73 | \$ 1.38 |
| Loss on sale of discontinued operations | | | | (0.01) |
| Basic earnings per share | \$ 0.70 | \$ 0.45 | \$ 1.73 | \$ 1.37 |
| Diluted earnings per share attributable to Bally Technologies, Inc.: | | | | |
| Income from continuing operations | \$ 0.67 | \$ 0.43 | \$ 1.65 | \$ 1.31 |
| Loss on sale of discontinued operations | | | | (0.01) |
| Diluted earnings per share | \$ 0.67 | \$ 0.43 | \$ 1.65 | \$ 1.30 |
| Weighted average shares outstanding: | | | | |
| Basic | 43,087 | 52,923 | 43,229 | 53,311 |
| Diluted | 45,052 | 55,527 | 45,138 | 55,849 |
| Amounts attributable to Bally Technologies, Inc.: | | | | |
| Income from continuing operations, net of tax | \$ 29,967 | \$ 23,766 | \$ 74,627 | \$ 73,210 |
| | | | | (403) |

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

Loss on sale of discontinued operations, net of tax

| | | | | | | | | |
|------------|----|--------|----|--------|----|--------|----|--------|
| Net income | \$ | 29,967 | \$ | 23,766 | \$ | 74,627 | \$ | 72,807 |
|------------|----|--------|----|--------|----|--------|----|--------|

(1) Cost of gaming equipment and systems exclude amortization related to certain intangibles, including core technology and license rights, which are included in depreciation and amortization.

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|-------------------------------------|-----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (in 000s, except per share amounts) | | | |
| Net income | \$ 29,914 | \$ 23,778 | \$ 74,607 | \$ 72,296 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment before income taxes | 648 | (52) | (2,536) | 843 |
| Income tax expense | | | | |
| Foreign currency translation adjustment | 648 | (52) | (2,536) | 843 |
| Unrealized gain (loss) on derivative financial instruments before income taxes | 124 | 457 | (8,211) | 495 |
| Income tax (expense) benefit | (43) | (160) | 2,874 | (173) |
| Unrealized gain (loss) on derivative financial instruments | 81 | 297 | (5,337) | 322 |
| Total other comprehensive income (loss), net of income taxes | 729 | 245 | (7,873) | 1,165 |
| Comprehensive income | 30,643 | 24,023 | 66,734 | 73,461 |
| Less: comprehensive income (loss) attributable to noncontrolling interests | (53) | 12 | (20) | (511) |
| Comprehensive income attributable to Bally Technologies, Inc. | \$ 30,696 | \$ 24,011 | \$ 66,754 | \$ 73,972 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

| | Common Stock Shares | Common Stock Dollars | Series E Special Stock | Treasury Stock | Additional Paid-In Capital (in 000s) | Accumulated Other Comprehensive Income (Loss) (OCI) | Retained Earnings | Noncontrolling Interests | Total Stockholders Equity |
|--|------------------------|-------------------------|------------------------------|-------------------|---|---|----------------------|-----------------------------|---------------------------------|
| Balances at June 30, 2010 | 59,495 | \$ 5,943 | \$ 12 | \$ (157,053) | \$ 392,853 | \$ (3,044) | \$ 303,100 | \$ 2,381 | \$ 544,192 |
| Net income from continuing operations, net of tax | | | | | | | 73,210 | (511) | 72,699 |
| Loss on sale of discontinued operations, net of tax | | | | | | | (403) | | (403) |
| Foreign currency translation adjustment | | | | | | 843 | | | 843 |
| Unrealized gain on derivative financial instruments, net of tax | | | | | | 322 | | | 322 |
| Total comprehensive income | | | | | | | | | \$ 73,461 |
| Distributions to noncontrolling interests | | | | | | | | (183) | (183) |
| Issuance and receipt of restricted stock, ESPP shares, stock options and related tax and tax benefit | 602 | 50 | | (2,534) | 7,238 | | | | 4,754 |
| Purchase of common stock for treasury | | | | (75,712) | | | | | (75,712) |
| Share-based compensation | | | | | 9,600 | | | | 9,600 |
| Balances at March 31, 2011 | 60,097 | \$ 5,993 | \$ 12 | \$ (235,299) | \$ 409,691 | \$ (1,879) | \$ 375,907 | \$ 1,687 | \$ 556,112 |
| Balances at June 30, 2011 | 61,541 | \$ 6,149 | \$ 12 | \$ (634,268) | \$ 442,713 | \$ (3,064) | \$ 401,363 | \$ 1,687 | \$ 214,592 |
| Net income from continuing operations, net of tax | | | | | | | 74,627 | (20) | 74,607 |
| Foreign currency translation adjustment | | | | | | (2,536) | | | (2,536) |
| Unrealized loss on derivative financial instruments, net of tax | | | | | | (5,337) | | | (5,337) |
| Total comprehensive income | | | | | | | | | \$ 66,734 |
| | | | | | | | | (138) | (138) |

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

| | | | | | | | | | | | | | | | | | |
|--|--------|----|-------|----|----------|----|-----------|----|---------|----|----------|----|---------|----------|-------|----|---------|
| Distributions to noncontrolling interests | | | | | | | | | | | | | | | | | |
| Cumulative effect of adoption of ASU 2010-16 for change in jackpot accounting | | | | | | | | | | | | | 2,384 | 2,384 | | | |
| Issuance and receipt of restricted stock, ESPP shares, stock options and related tax and tax benefit | 1,158 | | 114 | | (1,157) | | 23,648 | | | | | | | 22,605 | | | |
| Purchase of common stock for treasury | | | | | (81,608) | | | | | | | | | (81,608) | | | |
| Share-based compensation | | | | | | | 10,986 | | | | | | | 10,986 | | | |
| Balances at March 31, 2012 | 62,699 | \$ | 6,263 | \$ | 12 | \$ | (717,033) | \$ | 477,347 | \$ | (10,937) | \$ | 478,374 | \$ | 1,529 | \$ | 235,555 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Nine Months Ended March 31, | |
|---|--------------------------------|-----------|
| | 2012 | 2011 |
| | (in 000s) | |
| Cash flows from operating activities: | | |
| Net income | \$ 74,607 | \$ 72,296 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss on sale of discontinued operations, net of tax | | 403 |
| Depreciation and amortization | 61,325 | 55,483 |
| Share-based compensation | 10,986 | 9,600 |
| Amortization of deferred debt issuance costs | 1,351 | 2,931 |
| Income tax expense | 2,452 | 1,393 |
| Provision for doubtful accounts | 8,262 | 4,361 |
| Inventory write-downs | 4,003 | 2,224 |
| Excess tax benefit of stock option exercises | (4,589) | (1,578) |
| Other | 1,641 | (3,197) |
| Change in operating assets and liabilities: | | |
| Accounts and notes receivable | (33,889) | (22,828) |
| Inventories | (83,414) | (76,038) |
| Prepaid and refundable income tax and income tax payable | 22,584 | (7,862) |
| Other current assets | (4,227) | (1,705) |
| Accounts payable | (4,657) | 8,576 |
| Accrued liabilities, customer deposits and jackpot liabilities | 10,686 | (7,072) |
| Deferred revenue and deferred cost of revenue | 8,048 | (698) |
| Net cash provided by operating activities | 75,169 | 36,289 |
| Cash flows from investing activities: | | |
| Acquisition | (6,000) | |
| Capital expenditures | (6,890) | (9,528) |
| Restricted cash and investments | (4,013) | 1,802 |
| Financing arrangements with customers | | (9,940) |
| Additions to other long-term assets | (5,288) | (5,748) |
| Net cash used in investing activities | (22,191) | (23,414) |
| Cash flows from financing activities: | | |
| Proceeds from revolving credit facility | 10,000 | 21,149 |
| Payments on revolving credit facility | (30,000) | |
| Capitalized debt issuance costs | | (158) |
| Payments on long-term debt | (11,280) | (31,272) |
| Distributions to noncontrolling interests | (138) | (183) |
| Purchase of treasury stock | (74,976) | (78,246) |
| Excess tax benefit of stock option exercises | 4,589 | 1,578 |
| Proceeds from exercise of stock options and employee stock purchases | 18,875 | 5,870 |
| Net cash used in financing activities | (82,930) | (81,262) |
| Effect of exchange rate changes on cash | (734) | 1,573 |
| Net cash used in operating activities of discontinued operations | | (403) |
| | | (403) |
| Cash and cash equivalents: | | |

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

| | | |
|------------------------------|-----------|-----------|
| Decrease for period | (30,686) | (67,217) |
| Balance, beginning of period | 66,425 | 145,089 |
| Balance, end of period | \$ 35,739 | \$ 77,872 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED SUPPLEMENTAL CASH FLOW INFORMATION**

The following supplemental information is related to the unaudited condensed consolidated statements of cash flows:

| | Nine Months Ended March 31, | | |
|---|--------------------------------|-----------|-----------|
| | 2012 | (in 000s) | 2011 |
| Cash paid for interest | \$ | 12,945 | \$ 8,879 |
| Cash paid for income taxes, net of refunds | | 19,244 | 35,531 |
| Non-cash investing and financing transactions: | | | |
| Transfer of inventory to leased gaming equipment (1) | \$ | 80,246 | \$ 63,065 |
| Reclassify property, plant and equipment to inventory (1) | | 12,239 | 12,847 |
| Accrued purchase of treasury stock | | 7,789 | |
| Liabilities assumed in acquisition | | 2,830 | |

(1) As a result of the inability to separately identify the cash flows associated with the construction of leased gaming equipment, the Company has included all additions to leased gaming equipment as an increase in inventory under cash used in operating activities in the unaudited condensed consolidated statement of cash flows. In addition, cash generated from the sale of used gaming equipment classified as leased gaming equipment is also included in cash provided by operating activities in the unaudited condensed consolidated statement of cash flows. The Company has one process to procure raw materials for the assembly of both inventory and leased gaming equipment. The materials requisition planning process considers the number of devices the Company expects to build for sale and for use in its gaming operations division during a particular period, but it does not separately earmark purchases for leased gaming equipment. Without such an earmarking process, the Company is unable to determine whether the parts used to construct leased gaming equipment during a particular period came from inventory on hand at the beginning of the period or was constructed from inventory procured during the period of deployment, thus requiring the expenditure of cash.

Table of Contents

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bally Technologies, Inc. (Bally or the Company), a Nevada corporation, is a diversified, worldwide gaming company that innovates, designs, manufactures, operates and distributes advanced technology-based gaming devices, systems and server-based solutions, as well as interactive and mobile solutions. As a global gaming-systems provider, the Company offers technology solutions which provide gaming operators with a wide range of marketing, data management and analysis, accounting, player tracking, security and other software applications and tools to more effectively manage their operations. The Company's primary hardware technologies include spinning-reel and video gaming devices, specialty gaming devices and wide-area progressive systems for traditional land-based, riverboat and Native American casinos, video lottery and central determination markets and specialized system-based hardware products. In addition to selling its gaming devices, the Company also offers its customers a wide range of rental options.

Principles of presentation and consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC), include all adjustments necessary to fairly present the Company's consolidated financial position, results of operations and cash flows for each period presented. All adjustments are of a normal, recurring nature. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations. The results of operations for an interim period are not necessarily indicative of the results that may be expected for any other interim period or the year as a whole. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2011. References to specific U.S. GAAP within this report cite topics within the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

All intercompany accounts and transactions have been eliminated in consolidation.

Discontinued Operations

The Company was the general partner of Rainbow Casino Vicksburg Partnership (RCVP), which operated the Rainbow Casino, a dockside riverboat casino in Vicksburg, Mississippi. On April 5, 2010, the Company entered into a definitive purchase agreement to sell the Rainbow Casino which closed on June 8, 2010. Per the terms of the sale agreement, the Company had certain post-closing adjustments during fiscal 2011 which reduced its gain on the sale of the Rainbow Casino by approximately \$0.4 million, net of income taxes.

Use of estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts reflected in the accompanying unaudited condensed consolidated balance sheets for cash equivalents, accounts and notes receivable, investment securities to fund jackpot liabilities, accounts payable, jackpot liabilities and long-term debt approximate their respective fair values.

All financial assets and liabilities are recognized or disclosed at fair value using a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Table of Contents

The Company transacts business in various foreign currencies and has international sales and expenses denominated in foreign currencies, subjecting the Company to foreign currency risk. The Company may enter into foreign currency forward contracts, generally with maturities of twelve months or less, to hedge recognized foreign currency assets and liabilities to reduce the risk that earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. The gains or losses resulting from changes in the fair value of these forward contracts, which are not designated as accounting hedges, are reported in other income (expense) in the unaudited condensed consolidated statements of operations, and generally offset the gains and losses associated with the underlying foreign-currency-denominated balances, which are also reported in other income (expense). As of March 31, 2012, euro forward contracts for a total value of \$40.0 million, or the notional equivalent of 30 million, were outstanding.

The Company may use interest rate derivatives to manage the interest expense generated by variable rate debt and foreign currency derivatives to manage foreign exchange risk. The Company's derivative financial instruments are measured at fair value on a recurring basis, and the balances were as follows:

| | Fair Value Measurements Using Input Type | | |
|--|---|----------------------|---------|
| | Level 1 | Level 2 (in 000s) | Level 3 |
| As of March 31, 2012: | | | |
| Assets: | | | |
| Other current assets: | | | |
| Foreign currency derivative financial instrument | \$ | \$ 1,698 | \$ |
| Liabilities: | | | |
| Accrued and other liabilities: | | | |
| Foreign currency derivative financial instrument | \$ | \$ 120 | \$ |
| Interest rate derivative financial instruments | \$ | \$ 4,780 | \$ |
| Other liabilities: | | | |
| Interest rate derivative financial instrument | \$ | \$ 7,334 | \$ |
| As of June 30, 2011: | | | |
| Assets: | | | |
| Other assets, net: | | | |
| Foreign currency derivative financial instrument | \$ | \$ 452 | \$ |
| Interest rate derivative financial instruments | \$ | \$ 1,231 | \$ |
| Liabilities: | | | |
| Accrued and other liabilities: | | | |
| Foreign currency derivative financial instrument | \$ | \$ 586 | \$ |
| Interest rate derivative financial instruments | \$ | \$ 5,133 | \$ |

The valuation techniques used to measure the fair value of the derivative financial instruments above in which the counterparties have high credit ratings, were derived from pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data. The Company's discounted cash flow techniques use observable market inputs, such as LIBOR-based yield curves and foreign currency forward rates. See Note 4 to unaudited condensed consolidated financial statements, *Long-Term Debt*.

Accounting for Derivative Instruments and Hedging Activity

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

The Company assesses, both at the inception of each designated hedge and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. Such highly effective derivatives are granted hedge accounting treatment. The interest rate derivative instruments meet these requirements and are accounted for as cash flow hedges.

Table of Contents

The impact of the cash flow hedge and non-designated foreign currency derivatives on the unaudited condensed consolidated financial statements is depicted below:

Fiscal year 2012

| Derivative in Cash Flow Hedging Relationship | Amount of Loss Recognized in OCI on Derivative (Effective Portion) | | Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion) (in 000s) | Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) | |
|--|--|----------------------------------|---|--|----------------------------------|
| | Three Months Ended March 31, 2012 | Nine Months Ended March 31, 2012 | | Three Months Ended March 31, 2012 | Nine Months Ended March 31, 2012 |
| Interest rate swap agreement | \$ (1,064) | \$ (12,025) | Interest expense | \$ (1,188) | \$ (3,813) |

Fiscal year 2011

| Derivative in Cash Flow Hedging Relationship | Amount of Loss Recognized in OCI on Derivative (Effective Portion) | | Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion) (in 000s) | Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) | |
|--|--|----------------------------------|---|--|----------------------------------|
| | Three Months Ended March 31, 2011 | Nine Months Ended March 31, 2011 | | Three Months Ended March 31, 2011 | Nine Months Ended March 31, 2011 |
| Interest rate swap agreement | \$ (152) | \$ (1,392) | Interest expense | \$ (610) | \$ (1,887) |

| Non-Designated Derivative | Amount of Gain Recognized in Other Income (Expense) | | | |
|-----------------------------------|---|----------------------------------|-----------------------------------|----------------------------------|
| | Three Months Ended March 31, 2012 | Nine Months Ended March 31, 2012 | Three Months Ended March 31, 2011 | Nine Months Ended March 31, 2011 |
| Foreign Currency Forward Contract | \$ (1,105) | \$ 1,945 | \$ (277) | \$ (277) |

Accounts and Notes Receivable, Allowance for Doubtful Accounts and Credit Quality of Financing Receivables

Accounts and notes receivable are stated at face value less an allowance for doubtful accounts. The Company generally grants customers credit terms for periods of 30 to 120 days, but may also grant extended payment terms to some customers for periods up to three years, with interest generally at market rates.

The Company has one portfolio segment, the casino industry customer, and four classes of receivables including its trade receivables with a contract term less than one year, trade receivables with a contract term greater than one year, sales-type leasing arrangements, and notes receivable, which are related to development financing loans.

Trade receivables with contract terms greater than one year relate to the sale of gaming equipment and systems transactions, and are generally collateralized by the related equipment sold, although the value of such equipment, if repossessed, may be less than the receivable balance outstanding. Sales-type leasing arrangements relate to gaming equipment and include options to purchase the equipment at the end of the lease term at established prices. Customers with sales-type leasing arrangements typically have a long-standing credit history with the Company.

The Company has also provided development financing to certain customers in the form of notes receivable with repayment terms of three to ten years. These notes may require scheduled quarterly principal reductions and may also include accelerated payment terms based upon a percentage of net-win from gaming devices sold or leased to these customers. Notes receivable as of March 31, 2012, include \$20.0 million related to development financing loans made to HBG Connex S.P.A. (HBG) to allow it to make advance payments necessary to obtain gaming licenses in the Italian Video Lottery Terminal (VLT) market. HBG has initiated arbitration proceedings against the Company as a result of alleged damages from delays in obtaining regulatory approval of certain gaming equipment to be leased to HBG (see Note 8 to unaudited condensed consolidated financial statements) and has not made required payments on the notes receivable. The Company has not recorded an impairment on these notes receivable as management expects to collect amounts due under the notes receivable.

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

Table of Contents

The Company's accounts and notes receivable were as follows:

| | Accounts and Notes Receivable as of March 31, 2012 | | | Accounts and Notes Receivable as of June 30, 2011 | | |
|--------------------------------------|---|--|---|--|---|---|
| | Ending Balance | Ending Balance Individually Evaluated for Impairment | Ending Balance Collectively Evaluated for Impairment | Ending Balance | Ending Balance Individually Evaluated for Impairment | Ending Balance Collectively Evaluated for Impairment |
| | (in 000s) | | | | | |
| Contract term less than one year: | | | | | | |
| Trade and other receivables, current | \$ 165,796 | \$ 4,523 | \$ 161,273 | \$ 162,202 | \$ 2,064 | \$ 160,138 |
| Contract term greater than one year: | | | | | | |
| Trade receivables, current | 84,678 | 37,729 | 46,949 | 72,237 | 3,973 | 68,264 |
| Trade receivables, noncurrent | 36,688 | 7,351 | 29,337 | 15,111 | 213 | 14,898 |
| | 121,366 | 45,080 | 76,286 | 87,348 | 4,186 | 83,162 |
| Lease receivables, current | 14,326 | 14,326 | | 10,245 | 10,245 | |
| Lease receivables, noncurrent | 15,801 | 15,801 | | 13,490 | 13,490 | |
| | 30,127 | 30,127 | | 23,735 | 23,735 | |
| Notes receivable, current | 4,254 | 4,254 | | 1,621 | 1,621 | |
| Notes receivable, noncurrent | 15,147 | 15,147 | | 18,565 | 18,565 | |
| | 19,401 | 19,401 | | 20,186 | 20,186 | |
| Total current | 269,054 | 60,832 | 208,222 | 246,305 | 17,903 | 228,402 |
| Total noncurrent | 67,636 | 38,299 | 29,337 | 47,166 | 32,268 | 14,898 |
| Total | \$ 336,690 | \$ 99,131 | \$ 237,559 | \$ 293,471 | \$ 50,171 | \$ 243,300 |

The activity related to the allowance for doubtful accounts is summarized below:

| | Allowance for Doubtful Accounts | | | | | | |
|--------------------------------------|---|-----------------|------------|------------------------|---|--|--|
| | Beginning Balance as of June 30, 2011 | Charge- offs | Recoveries | Provision (in 000s) | Ending Balance as of March 31, 2012 | Ending Balance Individually Evaluated for Impairment | Ending Balance Collectively Evaluated for Impairment |
| Contract term less than one year: | | | | | | | |
| Trade and other receivables, current | \$ (5,875) | \$ 719 | \$ 241 | \$ (1,290) | \$ (6,205) | \$ (2,506) | \$ (3,699) |
| Contract term greater than one | | | | | | | |

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

| | | | | | | | | |
|----------------------------------|-------------|----------|--------|------------|-------------|------------|------------|--|
| year: | | | | | | | | |
| Trade receivables, current | (5,184) | 336 | 241 | (2,900) | (7,507) | (4,497) | (3,010) | |
| Trade receivables, noncurrent | (507) | 1,041 | | (2,322) | (1,788) | (457) | (1,331) | |
| | (5,691) | 1,377 | 241 | (5,222) | (9,295) | (4,954) | (4,341) | |
| Lease receivables, current | | | | | | | | |
| Lease receivables, noncurrent | | | | | | | | |
| Notes receivable, current | | | | | | | | |
| Notes receivable, noncurrent | | | | (1,750) | (1,750) | (1,750) | | |
| | | | | (1,750) | (1,750) | (1,750) | | |
| Total current | (11,059) | 1,055 | 482 | (4,190) | (13,712) | (7,003) | (6,709) | |
| Total noncurrent | (507) | 1,041 | | (4,072) | (3,538) | (2,207) | (1,331) | |
| Total | \$ (11,566) | \$ 2,096 | \$ 482 | \$ (8,262) | \$ (17,250) | \$ (9,210) | \$ (8,040) | |

Table of Contents

The Company evaluates the credit quality of its accounts and notes receivable and establishes an allowance for doubtful accounts based on a combination of factors including, but not limited to, customer collection experience, economic conditions, and the customer's financial condition. In addition to specific account identification, which includes the review of any modifications of accounts and notes receivable, if applicable, the Company utilizes historic collection experience for the most recent twelve month period to establish an allowance for doubtful accounts. Receivables are written off only after the Company has exhausted all collection efforts.

Gaming is a highly regulated industry requiring customers to obtain a gaming operator's license and verify with the applicable regulatory agency that they have the financial resources to operate a gaming establishment. Many of the Company's customers, including new casinos that have opened in recent years, are owned by existing multi-property customers that have established a favorable payment history with the Company. Customer accounts typically include a mix of trade receivables balances with terms for periods of 30 to 120 days and financing receivables resulting from extended payment terms.

The Company monitors the credit quality of its accounts receivable by reviewing an aging of customer invoices. Invoices are considered past due if a scheduled payment is not received within contractually agreed upon terms. The Company's notes receivable are reviewed quarterly, at a minimum, for impairment. The Company also reviews a variety of other relevant qualitative information such as collection experience, economic conditions and specific customer financial conditions to evaluate credit risk in recording the allowance for doubtful accounts or as an indicator of an impaired loan.

The Company accrues interest, if applicable, on its accounts and notes receivables per the terms of the agreement. Interest is not accrued on past due accounts and notes receivable, or individual amounts that the Company has determined and specifically identified as not collectible. The following summarizes the aging of past due receivables, excluding trade accounts receivable with a contract term less than one year, as of March 31, 2012:

| | 1 to 90 Days Past Due | 91 to 180 Days Past Due | 181 + Days Past Due | Total Past Due (in 000s) | Current | Total Receivable | Recorded Investment in Receivables on Nonaccrual Status | Recorded Investment 90 Days and Accruing |
|----------------------|--------------------------|----------------------------|------------------------|--------------------------------|------------|---------------------|---|---|
| Trade receivables | \$ 9,964 | \$ 3,204 | \$ 7,706 | \$ 20,874 | \$ 100,492 | \$ 121,366 | \$ 21,918 | \$ |
| Lease receivables | | | | | 30,127 | 30,127 | | |
| Notes receivable | 1,494 | 240 | 79 | 1,813 | 17,588 | 19,401 | 19,401 | |
| Total | \$ 11,458 | \$ 3,444 | \$ 7,785 | \$ 22,687 | \$ 148,207 | \$ 170,894 | \$ 41,319 | \$ |

The aging of customer invoices is based on their contractually agreed upon payment terms, which in certain rare circumstances have been modified from the original financing terms. The modifications of original financing terms are infrequent and generally do not represent a concession as they result only in a delay of payment that is typically insignificant to our total trade, lease and notes receivable balances. There were no significant modifications of accounts and notes receivable during the current period.

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

Impairment is recognized when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of a note arrangement. Due to an individual customer's filing of a bankruptcy petition, the Company recognized an impairment charge on notes receivable in which a related allowance of \$1.8 million was recorded after estimating the fair value of the collateral less costs to sell.

Impaired Loans

as of March 31, 2012

(in 000s)

| | Recorded Investment | Unpaid Principal Balance | Related Allowance (in 000s) | Average Recorded Investment | Interest Income Recognized |
|--|--------------------------------|---|--|--|---|
| With an allowance recorded: | | | | | |
| Notes receivable | \$ 2,856 | \$ 2,856 | \$ (1,750) | \$ 2,856 | \$ |
| With no related allowance recorded: | | | | | |
| Notes receivable | | | | | |
| Total | \$ 2,856 | \$ 2,856 | \$ (1,750) | \$ 2,856 | \$ |

As of June 30, 2011, the Company had no impaired loans in its accounts and notes receivable balances.

Table of Contents

The fair value of accounts and notes receivable, net, is estimated by discounting expected future cash flows using current interest rates at which similar loans would be made to borrowers, with similar credit ratings and remaining maturities. As of March 31, 2012 and June 30, 2011, respectively, the fair value of the accounts and notes receivable, net, approximate the carrying value.

Inventories

Inventories are stated at the lower of cost, determined on a first in, first out basis, or market. Cost elements included in work-in-process and finished goods include raw materials, direct labor and manufacturing overhead. Inventories consist of the following:

| | March 31, 2012 | (in 000s) | June 30, 2011 |
|-----------------|-------------------|-----------|------------------|
| Raw materials | \$ 52,106 | | \$ 53,926 |
| Work-in-process | 2,050 | | 1,630 |
| Finished goods | 27,564 | | 13,078 |
| Total | \$ 81,720 | | \$ 68,634 |

Revenue recognition

The Company's revenue recognition policy is to record revenue when all of the following criteria have been satisfied:

- Persuasive evidence of an arrangement exists;
- The price or fee to the customer is fixed or determinable;
- Collectability is reasonably assured;
- Delivery has occurred; and
- No significant contractual obligations remain.

Revenues are reported net of incentive rebates, discounts, sales taxes, and other taxes of a similar nature. For products sold under arrangements with extended payment terms the probability of collection is evaluated based on a review of the customer's credit worthiness and a review of historic collection experience on contracts with extended payment terms. As a result of such review, the Company recognizes revenue on extended payment term arrangements as the Company has determined that collectability is reasonably assured and the fees are fixed and determinable.

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

Games placed with customers on a trial basis are not recognized as revenue until the trial period ends, the customer accepts the games and all other relevant criteria have been met. Amounts billed to customers prior to completing the earnings process are deferred until the revenue recognition criteria are met.

The Company recognizes revenue in accordance with accounting guidance related to revenue recognition for multiple deliverable arrangements and certain revenue arrangements that include software elements. Prior to this accounting guidance, gaming equipment and systems revenue was recognized in accordance with software revenue recognition guidance. With the updated guidance, the scope of software revenue recognition was amended to exclude all tangible products containing both software and nonsoftware components that function together to deliver the product's essential functionality. As a result, certain products that were previously accounted for under the scope of software revenue recognition guidance are no longer accounted for as software.

Gaming Operations Revenue. Gaming operations revenue consists of the operation of linked progressive systems and the rental of gaming devices, game content and the related systems placed with customers. Fees under these arrangements are earned and recognized based on a share of money wagered, a share of the net winnings, or on a fixed daily rate. The daily fee entitles the customer to full use of the gaming device and includes maintenance, licensing of the game content software and connection to a linked progressive system, where applicable. In certain markets, the Company also charges a daily system connection fee for the customer to connect to a central determination system and/or back-office system. The Company does not consider these arrangements to have multiple revenue-generating activities as the services offered are a comprehensive solution in exchange for a daily fee and all of the products and services are delivered simultaneously. Gaming operations revenue is recognized under general revenue recognition guidance as the deliverables provide the customer with rights to use tangible gaming devices and software that is essential to the functionality of the gaming device.

Gaming Equipment Revenue. Gaming Equipment revenue is generated from the sale of gaming devices and licensing rights to game content software that is installed in the gaming device, parts, and other ancillary equipment. Arrangements may also include sales of game content conversion kits which enable customers to replace game content without purchasing a new gaming device. Gaming equipment arrangements do not include maintenance and product support fees beyond a standard warranty period. The recognition of revenue from the sale of gaming devices occurs as title and risk of loss have passed to the customer and all other criteria have been satisfied.

Table of Contents

As the combination of game content software and the tangible gaming device function together to deliver the product's essential functionality, revenue from the sale of gaming devices is recognized under general revenue recognition guidance. Game content conversion kits are considered software deliverables and are recognized in accordance with software revenue recognition guidance.

Systems Revenue. Systems revenue arrangements generally include a combination of systems software licenses, systems-based hardware products, maintenance and product support fees and professional services. The primary function of systems software licensed by the Company is to aid customers to more effectively run their business with marketing, data management and analysis, accounting, player tracking and security features.

Revenue for systems software and maintenance and product support fees is recognized under software revenue recognition guidance. Although the systems software and certain systems-based hardware function together, the primary functionality of the systems software is derived from the software and the systems software is not essential to the functionality of the systems-based hardware.

The Company licenses systems software on a perpetual basis or under time-based licenses. Revenue from perpetual license software is recognized at the inception of the license term if all revenue recognition criteria have been met. Revenue from maintenance and product support fees sold with perpetual licenses is recognized over the term of the support period. The Company's time-based licenses are generally for twelve month terms and are bundled with software maintenance and product support fees. All revenue from such arrangements is recognized over the term of the license.

Systems-based hardware includes embedded software that is essential to the functionality of the hardware. Accordingly, revenue related to all systems-based hardware sales and related maintenance and product support fees are recognized under general revenue recognition guidance. Revenue from the sale of systems-based hardware is generally recognized upon delivery when title and risk of loss have passed to the customer and all other revenue recognition criteria are met. However, in the case of arrangements involving a systems installation, revenue on the systems-based hardware is generally not recognized until the system has been installed and the customer has accepted the system. Hardware maintenance and product support fees are recognized during the term of the support period which is generally 12 months.

Software maintenance and product support provides customers with rights to unspecified software product upgrades, maintenance and patches released during the term of the support period. The Company's software maintenance and product support arrangements are generally for 12 month periods. Software maintenance and product support is recognized on a straight-line basis over the term of the support period.

Multiple Element Arrangements. The Company enters into revenue arrangements that may consist of multiple deliverables of its products and services. Customers may enter into arrangements with the Company for the implementation of systems software and the sale of gaming devices. Arrangements for the implementation of systems software will generally include a combination of systems software licenses, systems-based hardware products, maintenance and product support fees, and professional services. Certain gaming equipment arrangements may also include the sale of gaming devices and game conversion kits. Revenue arrangements with multiple deliverables are allocated to separate units of accounting if the deliverables meet both of the following criteria:

- The delivered items have value to the customer on a stand-alone basis. The items have value on a standalone basis if they are sold separately by any vendor or the customer could resell the delivered items on a standalone basis; and

- If the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Company.

At the inception of a multiple element arrangement, fees under the arrangement are allocated to the nonsoftware deliverables, and to the software deliverables as a group based on their relative selling price. Software deliverables are further subject to separation and allocation based on software revenue recognition guidance as described in the following paragraph. When applying the relative selling price method, a hierarchy is used for estimating the selling price based first on vendor-specific objective evidence (VSOE), then third-party evidence (TPE) and finally management's estimate of the selling price (ESP). Revenue for each unit of accounting is recognized when the relevant recognition criteria for each respective element has been met.

In allocating arrangement fees under the relative selling price hierarchy, the Company uses VSOE for all products which have been sold on a stand-alone basis. As TPE is generally not available, the Company uses ESP for products that are not sold on a stand-alone basis and for recently introduced products that are sold on a stand-alone basis but for which a history of stand-alone sales has not yet

Table of Contents

been developed. Following these guidelines, the Company uses either VSOE or ESP for gaming devices, system-based hardware products, maintenance and product support fees associated with perpetual licenses and professional services; and ESP for perpetual and time-based software licenses and maintenance and product support fees associated with time-based licenses.

The Company uses the residual method to recognize revenue allocated to software deliverables. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered element and is recognized as revenue. In arrangements in which the Company does not have VSOE of fair value of all undelivered software elements, revenue is deferred until delivery occurs or VSOE of fair value has been established for any remaining undelivered software elements. In the event the only undelivered software element is maintenance and product support for which VSOE of fair value does not exist, the revenue is recognized ratably over the maintenance and product support period.

The establishment of VSOE requires judgment as to whether there is a sufficient quantity of items sold on a stand-alone basis and whether the prices demonstrate an appropriate level of concentration to conclude that VSOE exists. In determining ESP, management considers a variety of information including historic pricing and discounting practices, competitive market activity, internal costs, and the pricing and discounting practices of products sold in bundled arrangements.

Other recently adopted accounting pronouncements

On December 31, 2011, the Company chose to early adopt new accounting guidance to make the presentation of items within other comprehensive income (OCI) more prominent. The new standard requires companies to present items of net income, items of OCI and total comprehensive income in one continuous statement or two separate consecutive statements, and companies are no longer allowed to present items of OCI only in the statement of stockholders' equity. The Company chose to present the items in two separate consecutive statements. The new guidance was applied retrospectively.

Effective December 31, 2011, new accounting guidance for testing goodwill impairment permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company has not utilized this method in evaluation goodwill impairment.

On July 1, 2011, the Company adopted new accounting guidance related to accruals for casino jackpot liabilities. Specifically, the guidance clarifies that an entity should not accrue jackpot liabilities, or portions thereof, before a jackpot is won if the entity can avoid paying the jackpot. Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. The guidance applies to both base and progressive jackpots. The new guidance was applied by recording a cumulative-effect adjustment to opening retained earnings of \$2.4 million on July 1, 2011.

On July 1, 2011, the Company adopted new accounting guidance related to troubled debt restructuring. The guidance clarifies which loan modifications constitute troubled debt restructurings to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosures of troubled debt restructurings.

Recently issued accounting pronouncements not yet adopted

In December 2011, the FASB issued new accounting guidance for disclosures about offsetting assets and liabilities which requires an entity to disclose information about financial instruments that have been offset and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. The new guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company expects to adopt this guidance in fiscal 2014 and does not believe it will have a significant impact on its consolidated results of operations, financial condition and cash flows.

The Company believes there is no additional new accounting guidance adopted but not yet effective that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on its financial reporting.

Table of Contents**2. EARNINGS PER SHARE**

Basic earnings per share are computed by dividing earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflect the additional dilution from all potentially dilutive securities.

The computation of basic and diluted earnings per share applicable to the Company's common stock is as follows:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|-----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| (in 000s, except per share amounts) | | | | |
| Amounts attributable to Bally Technologies, Inc.: | | | | |
| Income from continuing operations, net of tax | \$ 29,967 | \$ 23,766 | \$ 74,627 | \$ 73,210 |
| Loss on sale of discontinued operations, net of tax | | | | (403) |
| Net income | \$ 29,967 | \$ 23,766 | \$ 74,627 | \$ 72,807 |
| Weighted average common shares outstanding | 43,087 | 52,923 | 43,229 | 53,311 |
| Dilutive effect of: | | | | |
| Stock options, Restricted Stock Units (RSU) and restricted stock | 1,965 | 2,602 | 1,909 | 2,536 |
| Warrants | | 2 | | 2 |
| Weighted average diluted shares outstanding | 45,052 | 55,527 | 45,138 | 55,849 |
| Basic earnings per share attributable to Bally Technologies, Inc. | | | | |
| Income from continuing operations | \$ 0.70 | \$ 0.45 | \$ 1.73 | \$ 1.38 |
| Loss on sale of discontinued operations | | | | (0.01) |
| Basic earnings per share | \$ 0.70 | \$ 0.45 | \$ 1.73 | \$ 1.37 |
| Diluted earnings per share attributable to Bally Technologies, Inc. | | | | |
| Income from continuing operations | \$ 0.67 | \$ 0.43 | \$ 1.65 | \$ 1.31 |
| Loss on sale of discontinued operations | | | | (0.01) |
| Diluted earnings per share | \$ 0.67 | \$ 0.43 | \$ 1.65 | \$ 1.30 |

Certain securities were excluded from the diluted per share calculation because their inclusion would be anti-dilutive. Such securities consist of the following:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|------|--------------------------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| (in 000s) | | | | |
| Stock options, RSU and restricted stock | 524 | 624 | 713 | 644 |

Table of Contents**3. GOODWILL AND INTANGIBLE ASSETS**

Intangible assets consist of the following:

| | | March 31, 2012 | | | June 30, 2011 | | |
|--------------------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | Useful Life (Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| (dollars in 000s) | | | | | | | |
| Computer software | 3 - 9 | \$ 37,899 | (33,887) | \$ 4,012 | \$ 36,725 | \$ (31,841) | \$ 4,884 |
| License rights | 3 - 13 | 8,821 | (4,132) | 4,689 | 4,344 | (2,751) | 1,593 |
| Trademarks | 5 - 9 | 2,430 | (2,211) | 219 | 2,203 | (2,203) | |
| Core technology | 5 - 14 | 23,763 | (17,004) | 6,759 | 22,763 | (14,107) | 8,656 |
| Contracts | 5 - 10 | 15,571 | (8,219) | 7,352 | 15,303 | (7,372) | 7,931 |
| Other intangibles | 3 - 5 | 4,074 | (568) | 3,506 | 5,337 | (1,036) | 4,301 |
| Total finite lived intangible assets | | \$ 92,558 | \$ (66,021) | \$ 26,537 | \$ 86,675 | \$ (59,310) | \$ 27,365 |
| Trademark | indefinite | 7,500 | | 7,500 | 7,500 | | 7,500 |
| Total | | \$ 100,058 | \$ (66,021) | \$ 34,037 | \$ 94,175 | \$ (59,310) | \$ 34,865 |

Total amortization expense related to finite lived intangible assets was \$2.4 million and \$2.1 million for the three months ended March 31, 2012 and 2011, respectively, which included computer software amortization expense of \$0.5 million and \$0.7 million for the three months ended March 31, 2012 and 2011, respectively. Total amortization expense related to finite lived intangible assets was \$7.3 million and \$7.2 million for the nine months ended March 31, 2012 and 2011, respectively, which included computer software amortization expense of \$1.7 million and \$2.7 million for the nine months ended March 31, 2012 and 2011, respectively. Future amortization of finite lived intangible assets is scheduled as follows:

| Year Ended June 30, | (in 000s) |
|--|-----------|
| 2012 (remaining three months of fiscal year) | \$ 4,178 |
| 2013 | 10,412 |
| 2014 | 5,912 |
| 2015 | 2,718 |
| 2016 | 1,728 |
| Thereafter | 1,589 |
| Total | \$ 26,537 |

All goodwill is associated with continuing operations. The changes in the carrying amount of goodwill for the nine months ended March 31, 2012, are as follows:

| | (in 000s) |
|---|------------|
| Balance at June 30, 2011 | \$ 162,110 |
| Additions | 7,131 |
| Foreign currency translation adjustment | (461) |
| Balance at March 31, 2012 | \$ 168,780 |

In July 2011, the Company acquired substantially all of the assets and liabilities of MacroView Labs. No impairment charges for goodwill and intangible assets were necessary for the three and nine months ended March 31, 2012 and 2011, respectively.

Table of Contents**4. LONG-TERM DEBT**

Long-term debt consists of the following:

| | March 31, 2012 | (in 000s) | June 30, 2011 |
|---|-------------------|-----------|------------------|
| Revolving credit facility | \$ 199,000 | \$ | 219,000 |
| Term loan facility | 285,000 | | 296,250 |
| Other, generally unsecured | 211 | | 153 |
| Long-term debt | 484,211 | | 515,403 |
| Less current maturities | (15,211) | | (15,153) |
| Long-term debt, net of current maturities | \$ 469,000 | \$ | 500,250 |

As of March 31, 2012, there was approximately \$201.0 million of undrawn availability under the revolving credit facility. Availability under the revolving credit facility is reduced to the extent of outstanding letters of credit.

On April 15, 2011, the Company entered into an amended and restated credit agreement, that provides for a \$700 million senior secured credit facility comprised of a \$300 million, five-year term loan and a \$400 million, five-year revolving credit facility, including a \$50 million sublimit for the issuance of standby letters of credit, a \$10 million sublimit for swingline loans and a \$150 million sublimit for multicurrency borrowings approved under the credit facility.

The interest rate on the credit facility is subject to a leverage-based pricing grid based on LIBOR plus a margin between 1.25% and 2.00%. As of March 31, 2012, the interest rate on the revolving credit facility was 1.75% and the interest rate on the term loan was approximately 3.58%, after giving effect to the floating-to-fixed interest rate swaps discussed below.

Under the credit facility, the term loan requires quarterly principal reductions in an amount equal to 1.25% of the effective date term loan amount, or \$3,750,000, through March 2013; an amount equal to 1.875% of the effective date term loan amount, or \$5,625,000, through March 2014; an amount equal to 2.50% of the effective date term loan amount, or \$7,500,000, from June 2014 until the term loan's maturity in May 2016 upon when the remaining outstanding principal balance of \$187,500,000 is due.

The credit facility is collateralized by substantially all of the Company's domestic property and is guaranteed by each of the Company's domestic subsidiaries, excluding any noncontrolling interests, and is secured by a pledge agreement.

The fair value of long-term debt is estimated by discounting expected cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. As of March 31, 2012 and June 30, 2011, the fair value of long-term debt approximated the carrying value.

The credit facility contains a number of covenants that, among other things, restrict the Company's ability and certain of its subsidiaries to dispose of assets, incur additional indebtedness or issue preferred stock, pay dividends or make other distributions, enter into certain acquisitions, repurchase equity interests or subordinated indebtedness, issue or sell equity interests of our subsidiaries, engage in mergers or acquisitions or certain transactions with subsidiaries and affiliates, and that otherwise restrict corporate activities.

The financial covenants under the credit facility consist of a leverage ratio and an interest coverage ratio. The leverage ratio is computed as total debt outstanding at the end of the quarter divided by the trailing twelve months Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), excluding certain cash and non-cash charges. The interest coverage ratio is computed as EBITDA for the trailing twelve months divided by the trailing twelve months of interest charges.

A breach of any of the covenants or the inability to comply with the required financial ratios could result in a default under the credit facility. In the event of any such default, the lenders could elect to declare all borrowings outstanding under the credit facility, together with any accrued interest and other fees, to be due and payable. If the Company were unable to repay the indebtedness upon its acceleration, the lenders could proceed against the underlying collateral. The Company was in compliance with all of the credit facility covenants as of March 31, 2012 and June 30, 2011.

Table of Contents*Interest Rate Swap Agreements*

Effective December 2008, the Company entered into a floating-to-fixed interest rate swap agreement with an original notional value of \$218.8 million and a maturity date of September 26, 2012 to fix floating LIBOR based debt to fixed rate debt at an interest rate of 1.89%. Effective June 2011, the Company entered into a second floating-to-fixed rate swap agreement with an original notional value of \$165.0 million and a maturity date of May 13, 2016 to fix a portion of the floating LIBOR based debt under the new term loan to fixed rate debt at an interest rate of 2.09%. At March 31, 2012 and June 30, 2011, the combined swap agreements had a notional value of \$285.0 million and \$296.3 million, respectively.

The Company has documented and designated these interest rate swaps as cash flow hedges. Based on the assessment of effectiveness using statistical regression, the Company determined that the interest rate swaps are effective. Effectiveness testing of the hedge relationships and measurement to quantify ineffectiveness is performed each quarter using the hypothetical derivative method. As the interest rate swaps qualify as cash flow hedges, the Company adjusts the cash flow hedges on a quarterly basis to their fair value with a corresponding offset to accumulated Other Comprehensive Income (OCI). The interest rate swaps have been and are expected to remain highly effective for the life of the hedges. Effective amounts are reclassified to interest expense as the related hedged expense is incurred. Any ineffectiveness is reclassified from accumulated other comprehensive income to other income (expense). As of March 31, 2012, the Company had no ineffectiveness on its cash flow hedges. Amounts related to the swaps expected to be reclassified from other comprehensive income to interest expense in the next twelve months total \$4.8 million.

Additional information on the Company's interest rate swaps are as follows:

| Interest Rate Swaps | Balance Sheet Location | Fair Value (in 000s) | Location of Offsetting Balance |
|---|-------------------------------|-------------------------|--|
| Cash flow hedges \$285.0 million LIBOR based debt | Accrued and other liabilities | \$ 4,780 | |
| | Other liabilities | 7,334 | |
| | | \$ 12,114 | Accumulated other comprehensive income (before income taxes) |

5. SHARE-BASED COMPENSATION

Employee Stock Purchase Plan

The 2008 Employee Stock Purchase Plan (the 2008 ESPP) provides that eligible employees are able to contribute up to 10% of their eligible earnings towards the quarterly purchase of the Company's common stock. The employee's purchase price is equal to 85% of the fair market value. During the nine months ended March 31, 2012 and 2011, employees purchased 59,907 shares and 51,570 shares of common stock for approximately \$1.9 million and \$1.6 million, respectively, under the 2008 ESPP.

Share-Based Award Plans

Stock option activity as of and for the nine months ended March 31, 2012 is summarized below:

| | Shares (in 000s) | Exercise Price (per share) | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (in 000s) |
|--|---------------------|----------------------------------|---|---|
| Balance outstanding as of June 30, 2011 | 3,682 | \$ 24.45 | | \$ 60,558 |
| Granted | 75 | 36.69 | | |
| Exercised | (882) | 19.48 | | |
| Forfeited or expired | (51) | 36.14 | | |
| Balance outstanding as of March 31, 2012 | 2,824 | \$ 26.11 | 3.22 | \$ 58,359 |
| Exercisable as of March 31, 2012 | 2,126 | \$ 23.11 | 2.62 | \$ 50,346 |

Table of Contents

Restricted stock and RSU activity as of and for the nine months ended March 31, 2012 is summarized below:

| | Restricted Stock (in 000s) | Weighted Average Grant Date Fair Value (per share) | RSUs (in 000s) | Weighted Average Grant Date Fair Value (per share) |
|--|----------------------------------|--|-------------------|--|
| Balance outstanding as of June 30, 2011 | 337 | \$ 38.42 | 600 | \$ 18.92 |
| Granted | 217 | 39.11 | | |
| Vested | (99) | 40.67 | (30) | 42.01 |
| Forfeited or expired | (4) | 37.98 | | |
| Balance outstanding as of March 31, 2012 | 451 | \$ 38.26 | 570 | \$ 17.69 |
| Vested as of March 31, 2012. | | | 534 | \$ 16.04 |

Share-Based Compensation

The following table presents share-based compensation expense and related effect of the income tax benefit included in the Company's unaudited condensed consolidated statements of operations:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|----------|--------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (in 000s) | | | |
| Selling, general and administrative | \$ 2,655 | \$ 2,250 | \$ 7,808 | \$ 7,132 |
| Research and development costs | 989 | 661 | 3,011 | 2,338 |
| Cost of gaming equipment and systems and gaming operations | 60 | 43 | 167 | 130 |
| Share-based compensation expense before tax | 3,704 | 2,954 | 10,986 | 9,600 |
| Income tax benefit | 1,296 | 1,034 | 3,845 | 3,360 |
| Net share-based compensation expense | \$ 2,408 | \$ 1,920 | \$ 7,141 | \$ 6,240 |

As of March 31, 2012, there was \$7.9 million of total unrecognized compensation expense related to the unvested portion of stock options which will be recognized over the subsequent 1.73 years. In addition, as of March 31, 2012, there was \$13.5 million of total unrecognized compensation expense related to the unvested portion of restricted stock and RSUs which will be recognized over the subsequent 1.87 years.

6. STOCKHOLDERS EQUITY*Share Repurchase Plan*

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

The Company's Board of Directors have approved a variety of share repurchase plans under which, subject to price and market conditions, purchases of shares can be made from time to time in the open market or in privately negotiated transactions using available cash.

During the nine months ended March 31, 2012 and 2011, the Company repurchased 2,273,185 shares and 2,044,215 shares of common stock for \$81.6 million and \$75.7 million, respectively, under the share repurchase plan. As of March 31, 2012, \$70.1 million remained available under the plan for repurchase in future periods.

Table of Contents

7. INCOME TAXES

The provision for income taxes for interim periods is based on the current estimate of the annual effective tax rate expected to be applicable for the full fiscal year and the impact of discrete items, if any, and is adjusted as necessary for quarterly events. The effective income tax rate was approximately 37.2% and 36.5% for the three months ended March 31, 2012 and 2011, respectively, and 37.2% and 30.8% for the nine months ended March 31, 2012 and 2011, respectively. The increase in the effective income tax rate for the nine months ended March 31, 2012 compared to 2011 is primarily attributable to discrete items recorded in 2011 related to the Internal Revenue Service (IRS) settlement discussed below, the reinstatement of the federal research and development tax credit and deferred tax expense on the repatriation of earnings from our India subsidiary.

The IRS commenced examination of the Company's United States federal income tax returns for 2003 through 2005 in the fourth quarter of 2006. In January 2009, the IRS completed its field examination of the open tax years and issued a Revenue Agent's Report and the Company paid \$3.4 million in tax and \$1.2 million in interest to the IRS to settle certain agreed adjustments. The Company filed a formal protest regarding certain unagreed adjustments and in June 2010, the Company agreed to settle all remaining issues with the IRS. Formal closure of the case occurred in October 2010 and the Company received a refund from the IRS of \$2.3 million, including \$0.6 million in interest.

The IRS commenced examination of the Company's United States federal income tax returns for 2006 through 2009 during fiscal 2011. The IRS completed its field examination of the open tax years and issued a Revenue Agent's Report in January 2012. The Company filed a formal protest regarding certain unagreed adjustments in March 2012. The case has not been assigned to an IRS Appeals Office as of the date of this filing. If successful in defending the Company's position, it would result in a reduction to unrecognized tax benefits and a corresponding reduction of income tax provisions of approximately \$3.7 million. If the IRS were to prevail in full, it would result in additional income tax provisions of approximately \$7.1 million for the tax years 2006 through 2009.

It is reasonably possible that within the next twelve months the Company will resolve the matter presently under consideration with the IRS which may increase or decrease unrecognized tax benefits for the open tax years. However, an estimate of such increase or decrease cannot reasonably be made.

As of March 31, 2012, the Company has \$10.4 million related to uncertain tax positions, excluding related accrued interest and penalties, all of which, if recognized, would impact the effective tax rate. As of March 31, 2012, the Company has \$1.6 million accrued for the payment of interest and penalties.

Excluding the IRS Appeals case described above, it is reasonably possible that the Company's amount of unrecognized tax benefits may decrease within the next twelve months by a range up to \$0.1 million.

The Company files numerous consolidated and separate income tax returns in the United States and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to United States federal, state and local, or foreign income tax examinations for years before fiscal 2006.

Table of Contents

8. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to legal proceedings, claims and investigations in the ordinary course of business, including claims of alleged infringement of third-party patents and other intellectual property rights, indemnification claims, commercial, employment, regulatory and other matters. Liabilities related to such matters are recorded when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. The amounts accrued by the Company for these loss contingencies are not material to the financial statements. All legal costs associated with litigation are expensed as incurred.

In February 2012, HBG filed requests for arbitration in the National and International Chamber of Arbitration of Milan, Italy against the Company's Dutch and Italian subsidiaries (Bally Netherlands and Bally Italy , respectively). HBG alleged breach of contract (i) by Bally Netherlands in connection with a contractual arrangement pursuant to which the Company agreed to supply certain gaming equipment and (ii) by Bally Italy in connection with financial assistance for HBG's acquisition of licenses to operate gaming equipment in certain Italian markets. HBG has alleged damages of approximately \$114 million against Bally Netherlands. The Company responded in March 2012 denying the allegations and seeking to dismiss HBG's claims. Bally Netherlands has asserted a counterclaim against HBG for breach of contract for failure to assist in altering its products to conform to regulatory requirements in the Italian market. The counterclaim seeks equitable relief compelling HBG to perform its contractual obligations as well as an undetermined amount of monetary damages. With respect to this matter, it is too early in the process to predict the outcome or to reasonably estimate the possible range of losses, if any.

In April 2006, International Game Technology (IGT) filed a patent infringement lawsuit against the Company in the United States District Court for the District of Delaware. The complaint asserted that the Company's Bally Power Bonusing products infringe patents held by IGT, and sought injunctive relief and damages in unspecified amounts. In April 2009, the district court issued an order finding that two of the Company's products, ACSC Power Winners and ACSC Power Reward, infringe some patent claims asserted by IGT, but not others. Both parties appealed. In October 2011, the Federal Circuit Court of Appeals affirmed the district court's decision, and the case has been remanded to the district court for discovery and trial on the issue of damages. In the meantime, the Company undertook technical changes to ensure non-infringement for the two products partially in question.

In December 2004, IGT filed a patent infringement lawsuit against the Company in the United States District Court for the District of Nevada. The complaint asserted that the Company's wheel-based games, its games with a reel in the top box and its iVIEW products infringed on patents held by IGT, and sought injunctive relief and damages in unspecified amounts. As part of the defense, the Company asserted counterclaims seeking damages and other relief against IGT, including claims that IGT's patents were invalid, unenforceable and not infringed, as well as several claims that IGT engaged in anti-competitive conduct in violation of state and federal antitrust laws. In October 2008, the court granted the Company's motions for summary judgment, ruling that IGT's two wheel patents and a touch-screen player-tracking patent were invalid; that even if the patents were valid, the Company's wheel-based games at issue would not infringe; and that certain of its iVIEW products do not infringe the two asserted player-tracking patents. The summary judgment determinations were upheld by the Federal Circuit Court of Appeals. Upon remand, the District Court granted summary judgment in favor of IGT on the remaining portion of the case regarding IGT's alleged antitrust violations and in favor of Bally on IGT's remaining claim that Bally infringed an IGT player tracking patent. An appeal of the summary judgment on Bally's antitrust claims against IGT is pending.

The Company is also a party to various lawsuits relating to routine matters incidental to its business. Management does not believe that the outcome of such litigation, including the matters discussed above, in the aggregate, will have a material effect on its consolidated financial

position, results of operations or cash flows.

Table of Contents**9. SEGMENT AND GEOGRAPHICAL INFORMATION**

The Company's revenue consists of three sources: Gaming Equipment, which includes the sale of gaming devices and related equipment, parts and conversion kits; Gaming Operations, which includes the operation of wide-area progressive, video lottery and centrally determined systems and the rental of gaming devices and content; and Systems, which includes the sale and support of computerized monitoring systems and related recurring hardware and software maintenance revenue.

The following is a summary of revenues and gross margin:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|-------------------------------------|---------------------------------|------------|--------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (in 000s) | | | |
| Revenues: | | | | |
| Gaming Equipment and Systems | | | | |
| Gaming Equipment | \$ 79,256 | \$ 63,679 | \$ 213,839 | \$ 173,852 |
| Gaming Operations | 92,508 | 80,032 | 263,702 | 236,339 |
| Systems | 56,776 | 47,230 | 156,423 | 134,284 |
| Total revenues | \$ 228,540 | \$ 190,941 | \$ 633,964 | \$ 544,475 |
| Gross Margin(1): | | | | |
| Gaming Equipment and Systems | | | | |
| Gaming Equipment | \$ 36,578 | \$ 27,257 | \$ 94,993 | \$ 81,197 |
| Gaming Operations | 67,491 | 59,126 | 190,595 | 170,519 |
| Systems | 40,408 | 36,377 | 115,049 | 99,677 |
| Total gross margin | \$ 144,477 | \$ 122,760 | \$ 400,637 | \$ 351,393 |

- (1) Gross Margin from Gaming Equipment and Systems excludes amortization related to certain intangibles including core technology and license rights, which are included in depreciation and amortization.

The Company has operations based primarily in the United States as well as significant sales and distribution offices based in Europe, and other foreign locations, including South America and India. The table below presents information as to the Company's revenues and operating income by geographic region which is determined by country of destination:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---------------------------------|---------------------------------|------------|--------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (in 000s) | | | |
| Revenues: | | | | |
| United States and Canada | | | | |
| United States and Canada | \$ 187,108 | \$ 155,274 | \$ 516,601 | \$ 449,764 |
| International | 41,432 | 35,667 | 117,363 | 94,711 |
| Total revenues | \$ 228,540 | \$ 190,941 | \$ 633,964 | \$ 544,475 |
| Operating income: | | | | |
| United States and Canada | \$ 43,892 | \$ 34,557 | \$ 118,326 | \$ 96,644 |

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

| | | | | | | | | |
|------------------------|----|--------|----|--------|----|---------|----|---------|
| International | | 6,335 | | 3,345 | | 12,331 | | 10,977 |
| Total operating income | \$ | 50,227 | \$ | 37,902 | \$ | 130,657 | \$ | 107,621 |

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We begin this section with a summary of our key operating business divisions and our results as of and for the three and nine month periods ended March 31, 2012. The overview is followed by a detailed analysis of our results of operations and our financial condition and liquidity as of and for the three and nine months ended March 31, 2012 and 2011. References to we, our, us, or the Company refer to Bally Technologies, Inc. and its subsidiaries.

Forward Looking Statements

Certain statements made or incorporated by reference in this Quarterly Report on Form 10-Q, in our other filings with the Securities and Exchange Commission (SEC), in our press releases and in statements made by or with the approval of authorized personnel constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the safe harbor created thereby. Forward looking statements reflect intent, belief or current expectations with respect to, among other things, future events and financial trends affecting us. Forward looking statements are typically identified by words such as believes, estimates, expects, anticipates, plans, should, would and expressions.

Although we believe the expectations reflected in any forward looking statements are reasonable, readers are cautioned that forward looking statements involve known and unknown risks and uncertainties, are not guarantees of future performance and that actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward looking statements. These differences can arise as a result of the risks described in Item 1A, Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011 (the 2011 10-K), as well as other factors such as the impact of competition, the impact of any prolonged downturn in the economy or the financial markets, our ability to service debt, product development, foreign operations, dependence on key personnel, the ability to integrate future acquisitions, regulation by gaming authorities, the outcome of pending litigation matters, gaming taxes, market risks and the potential adverse effects to our financial condition, results of operations or prospects.

Forward looking statements in this Quarterly Report on Form 10-Q speak only as of the date hereof, and forward looking statements in documents incorporated by reference speak only as of the date of those documents. Unless otherwise required by law, we undertake no obligation to publicly update or revise these forward looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward looking statements contained in this Quarterly Report on Form 10-Q will, in fact, transpire.

Business Overview

We are a diversified, worldwide gaming company that innovates, designs, manufactures, operates and distributes advanced technology-based gaming devices, systems and server-based solutions, as well as interactive and mobile solutions. As a global gaming-systems provider, we offer technology solutions which provide gaming operators with a wide range of marketing, data management and analysis, accounting, player tracking, security and other software applications and tools to more effectively manage their operations. Our primary hardware technologies include spinning-reel and video gaming devices, specialty gaming devices and wide-area progressive systems for traditional land-based, riverboat and Native American casinos, video lottery and central determination markets and specialized system-based hardware products.

We derive our revenue from the following:

- *Gaming Equipment* Sale of gaming devices and related equipment, parts and conversion kits;
- *Gaming Operations* Operation of linked progressive systems, video lottery and centrally determined systems and the rental of gaming devices and content; and
- *Systems* Sale and support of specialized systems-based software and hardware products and related recurring hardware and software maintenance revenue.

We review certain financial measures in assessing our financial condition and operating performance not only in connection with creating our forecasts and in making comparisons to financial results from prior periods, but also in making comparisons to our competitors' financial results and our internal plans. We focus on fluctuations in revenue, cost and gross margin and also pay close attention to changes in our consolidated operating income, net income, diluted earnings per share, adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, including asset charges and share-based compensation), cash flows from operations and free cash flow (cash flows from operating activities less capital expenditures) as they are key indicators of our success. We also measure changes in selling, general and administrative (SG&A) expenses as a percent of revenue, which indicate management's

Table of Contents

ability to control costs, as well as changes in research and development (R&D) costs as a percent of revenue, which demonstrate investment in technology and product development. The measures listed above are not a comprehensive list of all factors considered by us in assessing our financial condition and operating performance, and we may consider other individual measures as required by trends and discrete events arising in a specific period, but they are the key indicators.

We are currently operating in a challenging economic environment. The gaming sector was and continues to be negatively impacted by lower consumer spending and limited resources available to fund capital projects. As a result of the challenging economic environment, we have provided select customers a greater amount of payment terms for periods up to one year, and in some cases for periods up to three years. We expect to continue to extend credit for these longer periods for the foreseeable future.

Gaming equipment revenues were \$79.3 million and \$63.7 million for the three months ended March 31, 2012 and 2011, respectively, and \$213.9 million and \$173.9 million for the nine months ended March 31, 2012 and 2011, respectively. Gaming equipment revenues improved due primarily to an increase in the number of new gaming devices sold as a result of key platform and hardware innovations, higher average selling price (ASP), and an increase in conversion kit revenue during the current period, when compared to the same period last year. During the three months ended March 31, 2012 and 2011, we sold 2,936 and 2,433 new gaming devices in the United States and Canada, respectively, of which 2,301 and 2,222 were replacement units, respectively. During the nine months ended March 31, 2012 and 2011, we sold 7,999 and 6,738 new gaming devices in the United States and Canada, respectively, of which 6,683 and 5,785 were replacement units, respectively.

We have and will continue to expand the number of game-development teams producing content on our new ALPHA 2 technology. Our Pro Series cabinets with ALPHA 2 technology are state of the art for the industry with regards to ergonomics, processing power, display technology, input device, operating system, sound and serviceability. This platform allows for the development of new, more compelling games and also facilitates our game download solution for customers. Our Pro Series cabinets also feature the iDeck, first of its kind multi-touch fully programmable and downloadable button panel which offers opportunity to add more interaction to the game-play experience with mystery bonus events, virtual shooting galleries and skill-based bonus games.

Systems revenues were \$56.8 million and \$47.3 million for the three months ended March 31, 2012 and 2011, respectively, and \$156.4 million and \$134.3 million for the nine months ended March 31, 2012 and 2011, respectively. During the three months ended March 31, 2012, when compared to the same period last year, the increase was primarily attributable to increases in maintenance revenue of \$3.3 million, software and services revenue of \$1.9 million, and hardware revenue of \$4.3 million. During the nine months ended March 31, 2012, when compared to the same period last year, the increase was primarily attributable to increases in maintenance revenue of \$7.2 million, software and services revenue of \$14.2 million, and hardware revenue of \$0.7 million. Our iVIEW Display Manager (DM) and our Elite Bonusing Suite continue to generate positive interest with our customers, and we are developing further DM applications, including wager-based applications, which we believe will be even more impactful. We have continued to invest in the basics of enterprise software development, delivery, customer support and services discipline, on improving core products, providing quality upgrade options for our customers, and increasing customer satisfaction levels through better service and support.

Gaming operations revenues were \$92.5 million and \$80.0 million for the three months ended March 31, 2012 and 2011, respectively, and \$263.7 million and \$236.3 million for the nine months ended March 31, 2012 and 2011, respectively. Revenues were stronger period over period due primarily to the significant investments we have made in our game development studios over the past few years, and the continued performance of existing and new premium game titles which increased rental and participation revenue, improvements in linked progressive revenues and lottery systems revenues. We experienced significant growth in the installed base of our rental and daily-fee games and linked progressive systems which increased by approximately 991 and 478 units, respectively, over March 31, 2011. Fiscal year 2012 results benefitted from our growing product offerings and innovations, such as U-Spin, and the continued success of our Cash Spin, Hot Spin, Vegas Hits and Cash Wizard games. Our linked progressive system revenue increased due primarily to the introduction of Cash Connection , the latest wide-area

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

progressive link, with the release of GREASE , and an increase in placements of our Betty Boop Love Meter , Golden Pharaoh and Money Vault wide-area progressive games. We expect to increase our wide-area progressive game presence with further releases of games on Cash Connection, including the fourth quarter release of Michael Jackson King of Pop . We also continue to focus our development efforts on the introduction of new and innovative games and cabinets both for our spinning-reel and video platforms.

International revenues were \$41.4 million and \$35.7 million for the three months ended March 31, 2012 and 2011, respectively, and \$117.4 million and \$94.7 million for the nine months ended March 31, 2012 and 2011, respectively. International revenues increased in the three months and nine months ended March 31, 2012, when compared to the same periods last year, due primarily to increases in sales in Europe, Mexico, South Africa and Australia.

Table of Contents

There are several new and potential gaming market developments that we believe will benefit us in the long term. In North America, we are focused on approved new jurisdictional opportunities and expansions in Canada, Illinois, Ohio, Kansas, Maryland, Louisiana, Mississippi, Florida, Massachusetts, Pennsylvania, Maine and California, and the potential for new market opportunities in New Hampshire, Kentucky and Texas. The breadth and timing of such opportunities remain uncertain due to the legislative process in these jurisdictions, as well as the difficult credit environment facing certain of our customers and the risk of the gaming industry impact of continued economic uncertainty. We are also engaged in expanding our position in South Africa, Australia, New Zealand, and Mexico, and, in the future, we also expect to generate revenue from the Italian Video Lottery Terminal (VLT) market and from potential new markets in Eastern Europe, Greece, Taiwan, South Korea, Japan, Vietnam, the Philippines and Brazil. Our entry into the Italian VLT market has been delayed by a lengthened regulatory approval process that developed in that market after we submitted our products for approval. As a result, certain customers and partners have modified their business approach to the market, which has delayed and, at least in the near term, reduced the amount of business we expected from the Italian VLT market.

Net cash provided by operating activities from continuing operations was \$75.2 million and \$36.3 million for the nine months ended March 31, 2012 and 2011, respectively. Cash flows provided by operating activities from continuing operations in the current period were positively affected by decreases in prepaid and refundable income tax due primarily to a refund of \$12.0 million in prior taxes paid and increases in deferred revenue during the same period.

In the nine months ended March 31, 2012, we made payments on our credit facility totaling \$41.3 million, borrowed \$10.0 million under our revolving line of credit, received proceeds from the exercise of stock options and purchases of stock under our 2008 Employee Stock Purchase Plan (the 2008 ESPP) of \$18.9 million, and purchased 2.1 million shares of our common stock for \$73.8 million. In the nine months ended March 31, 2011, we made payments on our credit facility of \$31.3 million, loaned \$9.9 million under a financing arrangement with a customer in Italy, borrowed \$21.1 million under our revolving line of credit, and purchased 2.0 million shares of our common stock for \$75.7 million.

Management monitors and reviews its SG&A expenses in comparison to current revenues and future opportunities. SG&A expenses increased to \$63.8 million and \$182.3 million during the three and nine months ended March 31, 2012 from \$57.6 million and \$164.4 million, respectively, in the same periods last year. SG&A expenses as a percentage of revenue decreased to 28% and 29% during the three and nine months ended March 31, 2012, respectively, when compared to 30% during both the three and nine months ended March 31, 2011. The increase in SG&A expenses during the three and nine months ended March 31, 2012 was due primarily to increases in payroll and related expenses, regulatory, and other infrastructure expense to support key new markets, and an increase in bad debt expense, when compared to the same periods last year. Payroll and related expenses increased due primarily to an increase in headcount in the comparative periods primarily as a result of our expansion into new international markets where we have not yet commenced revenue generating activities. Regulatory expense increased due primarily to an increase in submissions for new cabinets, game titles and operating systems, coupled with an expansion into new international markets. Bad debt expense increased due primarily to an increase in the allowance for doubtful accounts recorded in the current fiscal year in response to our expansion of credit offered to our customers, exposure in certain international markets and specific customer credit situations. Bad debt as a percentage of revenue continues to remain at approximately 1%.

Results of Operations

The summary financial results and operating statistics are as follows:

| Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|------------------------------|---|------|---|-----------------------------|---|------|---|
| 2012 | % | 2011 | % | 2012 | % | 2011 | % |

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

(dollars in millions)

| | | | | | | | | | | | | |
|--|----|-------|------|----|-------|------|----|-------|------|----|-------|------|
| Revenues: | | | | | | | | | | | | |
| Gaming Equipment | \$ | 79.3 | 35% | \$ | 63.7 | 33% | \$ | 213.9 | 34% | \$ | 173.9 | 32% |
| Gaming Operations | | 92.5 | 40% | | 80.0 | 42% | | 263.7 | 41% | | 236.3 | 43% |
| Systems | | 56.8 | 25% | | 47.3 | 25% | | 156.4 | 25% | | 134.3 | 25% |
| Total revenues | \$ | 228.6 | 100% | \$ | 191.0 | 100% | \$ | 634.0 | 100% | \$ | 544.5 | 100% |
| Gross Margin: | | | | | | | | | | | | |
| Gaming Equipment(1) | \$ | 36.6 | 46% | \$ | 27.3 | 43% | \$ | 95.0 | 44% | \$ | 81.2 | 47% |
| Gaming Operations | | 67.5 | 73% | | 59.1 | 74% | | 190.6 | 72% | | 170.5 | 72% |
| Systems(1) | | 40.4 | 71% | | 36.4 | 77% | | 115.0 | 74% | | 99.7 | 74% |
| Total gross margin | \$ | 144.5 | 63% | \$ | 122.8 | 64% | \$ | 400.6 | 63% | \$ | 351.4 | 65% |
| Selling, general and administrative(2) | | | | | | | | | | | | |
| | \$ | 63.8 | 28% | \$ | 57.6 | 30% | \$ | 182.3 | 29% | \$ | 164.4 | 30% |
| Research and development costs | | 24.8 | 11% | | 22.1 | 12% | | 70.6 | 11% | | 64.8 | 12% |
| Depreciation and amortization | | 5.7 | 2% | | 5.2 | 3% | | 17.1 | 3% | | 14.6 | 3% |
| Operating income | \$ | 50.2 | 22% | \$ | 37.9 | 20% | \$ | 130.6 | 21% | \$ | 107.6 | 20% |
| Income from continuing operations | \$ | 29.9 | 13% | \$ | 23.8 | 12% | \$ | 74.6 | 12% | \$ | 72.7 | 13% |

-
- (1) Gross Margin from Gaming Equipment and Systems excludes amortization related to certain intangibles, including core technology and license rights, which are included in depreciation and amortization.
- (2) Selling, general and administrative expense for the three and nine months ended March 31, 2012 include a \$1.8 million impairment on notes receivable related to development financing.

Table of Contents

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--------------------------------------|---------------------------------|-----------|--------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Operating Statistics | | | | |
| New gaming devices | 4,147 | 3,417 | 11,182 | 9,708 |
| New unit ASP | \$ 17,073 | \$ 15,556 | \$ 16,978 | \$ 15,482 |
| End of period installed base: | | | | |
| Linked progressive systems | | | 1,388 | 910 |
| Rental and daily-fee games | | | 14,824 | 13,833 |
| Video lottery systems | | | 10,989 | 8,263 |
| Centrally determined systems | | | 47,450 | 51,482 |

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Total revenues increased \$37.6 million, or 20%, in the three months ended March 31, 2012, when compared to the same period last year, as a result of the following:

Gaming Equipment Revenue. Gaming Equipment revenue increased \$15.6 million, or 24%, to \$79.3 million primarily as a result of a 21% increase in new gaming device sales to 4,147 units in the three months ended March 31, 2012, when compared to 3,417 units in the same period last year. ASP of new gaming devices increased by 10% to \$17,073 in the three months ended March 31, 2012 when compared to \$15,556 in the same period last year. The increase in ASP was primarily a result of the mix of products sold, including sales of the new Pro Series cabinets with ALPHA 2 technology in the current fiscal quarter which made up approximately 89% of shipments, when compared to 52% in the same period last year.

Gaming Equipment Gross Margin. Gaming Equipment gross margin increased to 46% in the three months ended March 31, 2012 from 43% in the same period last year, due primarily to product mix and cost reductions on certain models of the Pro Series line of cabinets. In addition, the prior year included certain write-downs related to older technology platforms.

Gaming Operations Revenue. Gaming Operations revenue increased \$12.5 million, or 16%, to \$92.5 million in the three months ended March 31, 2012, when compared to the same period last year, primarily as a result of an increase in participation and rental revenue and the placements of higher yield premium products, including Cash Spin, Hot Spin, Vegas Hits and Cash Wizard, and the performance of our installed base of lottery systems and linked progressive systems. The improvement in participation and rental revenue and wide-area progressive revenue was primarily due to increases in our end of period installed base of games, that included a 7% increase in the installed games base of rental and daily fee games, and a 53% increase in the installed base of linked progressive systems due primarily to the introduction of our new wide-area progressive link Cash Connection, which includes GREASE, and the continued placement of our Betty Boop Love Meter, Golden Pharaoh and Money Vault games. The improvements in our lottery systems revenue was primarily due to increases in our end of period installed base of games with the opening of Resorts World Casino New York City.

Gaming Operations Gross Margin. Gross margin decreased slightly to 73% in the three months ended March 31, 2012, when compared to 74%, in the same period last year.

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

Systems Revenue. Systems revenue increased \$9.5 million, or 20%, to \$56.8 million in the three months ended March 31, 2012 when compared to the same period last year. Maintenance revenue increased \$3.3 million in the three months ended March 31, 2012, when compared to the same period last year, as a result of the increased install base of customers on our systems. The three months ended March 31, 2012 included increases in maintenance revenue of 20%, software and services revenue of 13%, and hardware revenue of 27%, when compared to the same period last year.

Table of Contents

Systems Gross Margin. Systems gross margin decreased to 71% in the three months ended March 31, 2012 from 77%, in the same period last year, primarily as a result of a change in the mix of products sold in the comparative periods which included a 27% increase in hardware revenue. Specifically, systems revenues for the three months ended March 31, 2012 were comprised of 36% hardware, 34% maintenance and 30% software and services revenue, as compared to 34% hardware, 35% maintenance and 31% software and services revenue in the same period last year.

Selling, General and Administrative Expenses. SG&A expenses increased \$6.2 million, or 11%, in the three months ended March 31, 2012, when compared to the same period last year, due primarily to increases in payroll and related expenses and bad debt expense. Payroll and related expenses increased due primarily to an increase in headcount in the comparative periods primarily as a result of our expansion into new international markets where we have not yet commenced significant revenue generating activities. In addition, certain incentive expenses, including commissions, increased during the current period with the 20% increase in revenue, when compared to the same period last year. Bad debt expense included a \$1.8 million impairment on notes receivable related to development financing.

Research and Development Costs. R&D costs increased \$2.7 million, or 12%, in the three months ended March 31, 2012, when compared to the same period last year, due primarily to increased product development efforts requiring an increase in employees. The increased costs reflect our continued focus on our technology assets including content development on the ALPHA 2 platform and the new Pro Series cabinets as well as development of iVIEW DM and applications on the Elite Bonusing Suite.

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$0.5 million, or 10%, in the three months ended March 31, 2012, when compared to same period last year, primarily as a result of additions in intangible assets and property and equipment year over year.

Nine Months Ended March 31, 2012 Compared to Nine Months Ended March 31, 2011

Total revenues increased \$89.5 million, or 16%, in the nine months ended March 31, 2012, when compared to the same period last year, as a result of the following:

Gaming Equipment Revenue. Gaming Equipment revenue increased \$40.0 million, or 23%, to \$213.9 million primarily as a result of a 15% increase in new gaming device sales to 11,182 units in the nine months ended March 31, 2012, when compared to 9,708 units in the same period last year. ASP of new gaming devices increased by 10% to \$16,978 in the nine months ended March 31, 2012 when compared to \$15,482 in the same period last year. The increase in ASP was primarily a result of the mix of products sold, including the sales of new Pro Series cabinets with Alpha 2 technology in the current fiscal year which made up approximately 84% of shipments, when compared to 37% in the same period last year.

Gaming Equipment Gross Margin. Gaming Equipment gross margin decreased to 44% in the nine months ended March 31, 2012 from 47% in the same period last year, due primarily to the increased cost for the initial production runs of several models of the Pro Series line of cabinets, which were released in late fiscal 2011.

Gaming Operations Revenue. Gaming Operations revenue increased \$27.4 million, or 12%, to approximately \$263.7 million in the nine months ended March 31, 2012, when compared to the same period last year, primarily as a result of an increase in participation and rental revenue and the placements of higher yield premium products, including Cash Spin, Hot Spin, Vegas Hits and Cash Wizard, and the performance of our installed base of lottery systems and linked progressive systems. The improvement in participation and rental revenue and wide-area progressive revenue was primarily due to increases in our end of period installed base of games, that included a 7% increase in the installed games base of rental and daily fee games, and a 53% increase in the installed base of linked progressive systems due primarily to the introduction of Cash Connection and the continued placement of our Betty Boop Love Meter, Golden Pharaoh and Money Vault games. The improvements in our lottery systems revenue was primarily due to increases in our end of period installed base of games with the opening of Resorts World Casino New York City

Gaming Operations Gross Margin. Gross margin was consistent at 72% in both the nine months ended March 31, 2012 and 2011, respectively.

Systems Revenue. Systems revenue increased \$22.1 million, or 16%, to approximately \$156.4 million in the nine months ended March 31, 2012 when compared to the same period last year. Maintenance revenue increased \$7.2 million in the nine months ended March 31, 2012, when compared to the same period last year, as a result of the increased install base of customers on our systems. The nine months ended March 31, 2012 included increases in maintenance revenue of 15%, software and services revenue of 40%, and hardware revenue of 2%, when compared to the same period last year.

Table of Contents

Systems Gross Margin. Systems gross margin was consistent at 74% in both the nine months ended March 31, 2012 and 2011, respectively. Systems revenue for the nine months ended March 31, 2012 were comprised of 33% hardware, 35% maintenance and 32% software and services revenue, as compared to 37% hardware, 36% maintenance and 27% software and services revenue in the same period last year.

Selling, General and Administrative Expenses. SG&A expenses increased \$17.9 million, or 11%, in the nine months ended March 31, 2012, when compared to the same period last year, due primarily to increases in payroll and related expenses, regulatory expense, and bad debt expense. Payroll and related expenses increased due primarily to an increase in headcount in the comparative periods primarily as a result of our expansion into new international markets where we have not yet commenced significant revenue generating activities. In addition, certain incentive expenses, including commissions, have increased during the current period with the 16% increase in revenue, when compared to the same period last year. Regulatory expense increased due primarily to an increase in submissions for new cabinets, game titles and operating systems, coupled with an expansion into new international markets. Bad debt expense increased due primarily to an increase in the allowance for doubtful accounts recorded in the current period in response to our expansion of credit offered to our customers and increased exposure in international markets and a \$1.8 million impairment on notes receivable related to development financing.

Research and Development Costs. R&D costs increased \$5.8 million, or 9%, in the nine months ended March 31, 2012, when compared to the same period last year, due primarily to increased product development efforts requiring an increase in employees. The increased costs reflect our continued focus on our technology assets including content development on the ALPHA 2 platform and the new Pro Series cabinets as well as development of iVIEW DM and applications on the Elite Bonusing Suite.

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$2.5 million, or 17%, in the nine months ended March 31, 2012, when compared to same period last year, primarily as a result of additions in intangible assets and property and equipment year over year.

Other Income (Expense), Income Tax Expense and Net Income Attributable to Noncontrolling Interests

Other income (expense) and income tax expense from continuing operations and net income attributable to noncontrolling interests was as follows:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|------------------------------|-----------|-----------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (dollars in millions) | | | |
| Other income (expense) | | | | |
| Interest income | \$ 1.2 | \$ 1.3 | \$ 3.7 | \$ 3.6 |
| Interest expense | (4.1) | (2.9) | (13.2) | (8.9) |
| Other, net | 0.3 | 1.1 | (2.3) | 2.6 |
| Total other expense | \$ (2.6) | \$ (0.5) | \$ (11.8) | \$ (2.7) |
| Income tax expense | \$ (17.7) | \$ (13.7) | \$ (44.3) | \$ (32.3) |
| Net income (loss) attributable to noncontrolling interests | \$ (0.1) | \$ | \$ | \$ (0.5) |

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Other Income (Expense). Other expense increased \$2.1 million in the three months ended March 31, 2012, when compared to the same period last year, due primarily to increases in interest expense, and decreases in foreign currency translation gains during the same period. In the three months ended March 31, 2012, gains on foreign currency translation were \$0.2 million, when compared to \$1.0 million in the same period last year. Interest expense increased \$1.2 million in the three months ended March 31, 2012, when compared to the same period last year, due primarily to the increase in long term debt upon entering into the amended and restated credit agreement in April 2011.

Income Tax Expense. Income tax expense increased \$4.0 million during the three months ended March 31, 2012, when compared to the same period last year, due primarily to the increase in net income. See Note 7 to the unaudited condensed consolidated financial statements, *Income Taxes*. The effective income tax rate for continuing operations for the three months ended March 31, 2012 and 2011 was 37.2% and 36.5%, respectively.

Nine Months Ended March 31, 2012 Compared to Nine Months Ended March 31, 2011

Other Income (Expense). Other expense increased \$9.1 million in the nine months ended March 31, 2012, when compared to the same period last year, due primarily to increases in interest expense and foreign currency translation losses during the same period. In the nine months ended March 31, 2012, losses on foreign currency translation were \$2.7 million, when compared to gains on foreign currency translation of \$2.3 million in the same period last year. Interest expense increased \$4.3 million in the nine months ended March 31, 2012, when compared to the same period last year, due primarily to the increase in long term debt upon entering into the amended and restated credit agreement in April 2011.

Table of Contents

Income Tax Expense. Income tax expense increased \$12.0 million during the nine months ended March 31, 2012, when compared to the same period last year, due primarily to the increase in net income. In addition, during the nine months ended March 31, 2011, income tax expense was lower due to certain discrete items related to an IRS settlement, other changes in our uncertain tax positions, the reinstatement of the research and development tax credit and deferred tax expense on the repatriation of earnings from our India subsidiary. See Note 7 to the unaudited condensed consolidated financial statements, *Income Taxes*. The effective income tax rate for continuing operations for the nine months ended March 31, 2012 and 2011 was 37.2% and 30.8%, respectively.

Net income (loss) attributable to noncontrolling interests. Net income attributable to noncontrolling interests decreased \$0.5 million in the nine months ended March 31, 2012, when compared to the same period last year.

Financial Condition and Liquidity*Working Capital*

| | March 31, 2012 | June 30, 2011 | Increase (decrease) | |
|--|-------------------|------------------|---------------------|-------|
| | | | Amount | % |
| | (in 000s) | | | |
| Cash and cash equivalents | \$ 35,739 | \$ 66,425 | \$ (30,686) | (46)% |
| Total long-term debt, including current maturities | \$ 484,211 | \$ 515,403 | \$ 31,192 | 6% |
| Total current assets | \$ 463,854 | \$ 473,677 | \$ (9,823) | (2)% |
| Total current liabilities | 190,859 | 160,616 | (30,243) | (19)% |
| Net working capital | \$ 272,995 | \$ 313,061 | \$ (40,066) | (13)% |

Our net working capital decreased \$40.1 million in the nine months ended March 31, 2012, when compared to June 30, 2011, and was primarily affected by a \$30.7 million decrease in cash and cash equivalents, and a decrease of \$20.3 million in prepaid and refundable income tax during the same period. The net decrease in cash and cash equivalents was primarily due to payments on our credit facility and purchases of our common stock under our share repurchase plan. The decrease in prepaid and refundable income tax was due primarily to a cash refund of \$12.0 million and a carryforward of an overpayment in fiscal year 2011, offsetting fiscal year 2012 taxes payable.

Pursuant to various state gaming regulations, certain cash accounts are maintained to ensure availability of funds to pay wide-area progressive jackpot awards in installments rather than in one lump-sum. At March 31, 2012 and June 30, 2011, these accounts had an aggregate value of approximately \$12.1 million and \$8.4 million, respectively, which are classified as restricted cash in our unaudited condensed consolidated balance sheets. In addition, we purchase U.S. Treasury Strip Securities for the benefit of jackpot winners who elect to receive winnings in annual or weekly installment payments. These securities are included in restricted long-term investments in the accompanying unaudited condensed consolidated balance sheets, and totaled \$12.8 million and \$12.5 million as of March 31, 2012 and June 30, 2011, respectively.

On March 31, 2012 and June 30, 2011, the amount of cash and investments held by foreign subsidiaries was \$16.4 million and \$18.2 million, respectively. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these

funds.

Current and long-term accounts and notes receivable were \$319.4 million and \$281.9 million at March 31, 2012 and June 30, 2011, respectively. As of March 31, 2012, our DSO s decreased to 114 days from 116 days at June 30, 2011.

On April 15, 2011, we entered into an amended and restated credit agreement, that provides for a \$700 million senior secured credit facility comprised of a \$300 million, five-year term loan and a \$400 million, five-year revolving credit facility, including a \$50 million sublimit for the issuance of standby letters of credit, a \$10 million sublimit for swingline loans and a \$150 million sublimit for multicurrency borrowings approved under the credit facility.

The interest rate on the credit facility is subject to a leverage-based pricing grid based on LIBOR plus a margin between 1.25% and 2.00%. As of March 31, 2012, the interest rate on the revolving credit facility was 1.75% and the interest rate on the term loan was approximately 3.58%, after giving effect to the floating-to-fixed interest rate swaps discussed below.

Table of Contents

Effective December 2008, we entered into a floating-to-fixed interest rate swap agreement with an original notional value of \$218.8 million and a maturity date of September 26, 2012 to fix floating LIBOR based debt to fixed rate debt at an interest rate of 1.89%. Effective June 2011, we entered into a second floating-to-fixed rate swap agreement with an original notional value of \$165.0 million and a maturity date of May 13, 2016 to fix a portion of the floating LIBOR based debt under the new term loan to fixed rate debt at an interest rate of 2.09%. At March 31, 2012 and June 30, 2011, the combined swap agreements had a notional value of \$285.0 million and \$296.3 million, respectively.

Under the credit facility, the term loan requires quarterly principal reductions in an amount equal to 1.25% of the effective date term loan amount, or \$3,750,000, through March 2013; an amount equal to 1.875% of the effective date term loan amount, or \$5,625,000, through March 2014; an amount equal to 2.50% of the effective date term loan amount, or \$7,500,000, from June 2014 until the term loan's maturity in May 2016 upon when the remaining outstanding principal balance of \$187,500,000 is due.

The credit facility is collateralized by substantially all of our domestic property and is guaranteed by each of our domestic subsidiaries, excluding any noncontrolling interests, and is secured by a pledge agreement.

The fair value of long-term debt is estimated by discounting expected cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. As of March 31, 2012 and June 30, 2011, the fair value of long-term debt approximated the carrying value.

The credit facility contains a number of covenants that, among other things, restrict our ability and certain of our subsidiaries to dispose of assets, incur additional indebtedness or issue preferred stock, pay dividends or make other distributions, enter into certain acquisitions, repurchase equity interests or subordinated indebtedness, issue or sell equity interests of our subsidiaries, engage in mergers or acquisitions or certain transactions with subsidiaries and affiliates, and that otherwise restrict corporate activities.

The financial covenants under the credit facility consist of a leverage ratio and an interest coverage ratio. The leverage ratio is computed as total debt outstanding at the end of the quarter divided by the trailing twelve months Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), excluding certain cash and non-cash charges. The interest coverage ratio is computed as EBITDA for the trailing twelve months divided by the trailing twelve months of interest charges.

A breach of any of the covenants or the inability to comply with the required financial ratios could result in a default under the credit facility. In the event of any such default, the lenders could elect to declare all borrowings outstanding under the credit facility, together with any accrued interest and other fees, to be due and payable. If we were unable to repay the indebtedness upon its acceleration, the lenders could proceed against the underlying collateral. We were in compliance with all of the credit facility covenants as of March 31, 2012 and June 30, 2011.

As of March 31, 2012, there was approximately \$201.0 million of undrawn availability under the revolving credit facility. Availability under the revolving credit facility is reduced to the extent of outstanding letters of credit.

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

Management believes that cash flows from current operating activities will provide us with sufficient capital resources and liquidity to operate our business for at least the next 12 months.

At March 31, 2012, we had no material commitments for capital expenditures.

Cash Flow Summary

Our primary sources of liquidity include existing cash and cash equivalents, cash flows from all operating activities and the availability of funds under our revolving credit facility.

We utilize our cash to acquire materials for the manufacture of goods for resale, to pay payroll, operating expenses, interest, and taxes and to fund R&D activities.

Cash flows provided by continuing operating activities were \$75.2 million in the nine months ended March 31, 2012, as compared to \$36.3 million in the same period last year, a \$38.9 million increase. Cash flows from operating activities of continuing operations for the nine months ended March 31, 2012 were positively affected by decreases in prepaid and refundable income tax due primarily to a refund of \$12.0 million in prior taxes paid and an increase in deferred revenue.

Table of Contents

Cash utilized for investing activities from continuing operations is primarily for capital expenditures related to furniture, fixtures, office and gaming equipment and improvements in leaseholds, financing arrangements with customers and investments in technology and other long-term assets. During the nine months ended March 31, 2012 and 2011, we made capital expenditures of \$6.9 million and \$9.5 million, respectively. During the nine months ended March 31, 2012, we made payments of \$6.0 million related to an acquisition. During the nine months ended March 31, 2011, we provided \$9.9 million under a financing arrangement with a customer in Italy.

Cash utilized for financing activities from continuing operations is primarily for the payment of principal on our debt and the purchase of shares of our common stock. We made payments of \$41.3 million on our credit facility, and purchased 2.1 million shares of our common stock for \$73.8 million under our share repurchase plan during the nine months ended March 31, 2012. An additional 0.2 million shares of our common stock were purchased for \$7.8 million with trade dates in late March that settled in early April. We made payments of \$31.3 million on our credit facility and purchased 2.0 million shares of our common stock for \$75.7 million during the nine months ended March 31, 2011.

Cash provided by financing activities is primarily from proceeds from the exercise of stock options and purchases of stock under our 2008 ESPP, borrowings under our revolving credit facility, and excess tax benefits of stock option exercises. During the nine months ended March 31, 2012, employees exercised options for 876,171 shares of common stock for \$17.0 million and purchased 59,907 shares of common stock for \$1.9 million under our 2008 ESPP. In addition, we borrowed \$10.0 million under our revolving credit facility during the nine months ended March 31, 2012. During the nine months ended March 31, 2011, employees exercised options for 261,208 shares of common stock for \$4.3 million and purchased 51,570 shares of common stock for \$1.6 million under our 2008 ESPP. In addition, we borrowed \$21.1 million under our revolving credit facility during the nine months ended March 31, 2011.

Critical Accounting Policies

A description of our critical accounting policies can be found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2011 10-K. There were no material changes to those policies during the nine months ended March 31, 2012.

Other Recently Issued Accounting Pronouncements

For a description of other recently issued accounting pronouncements, see Note 1 to the unaudited condensed consolidated financial statements, *Description of Business and Summary of Significant Accounting Policies*.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As of March 31, 2012, we had total debt outstanding of approximately \$484.2 million which consisted primarily of a \$285.0 million term loan and \$199.0 million of borrowings under our revolving credit facility. We have minimized our exposure to market interest rate risk because the variable interest rate on the term loan was effectively converted to a fixed rate as a result of the floating-to-fixed interest rate swaps discussed in Note 4 to the unaudited condensed consolidated financial statements, *Long-Term Debt*. As of March 31, 2012, the interest rate on the revolving credit facility was 1.75% and the interest rate on our term loan was approximately 3.58%, after giving effect to our interest rate swaps.

Foreign Currency Exchange Rate Risk

Certain of our foreign subsidiaries use their local currency as their functional currency and are exposed to risks resulting from fluctuations in foreign currency exchange rates. During the three months ended March 31, 2012 and 2011, we recognized foreign currency exchange rate gains of approximately \$0.2 million and \$1.0 million, respectively. During the nine months ended March 31, 2012 and 2011, we recognized a foreign currency exchange rate loss of approximately \$2.7 million and a foreign currency exchange rate gain of approximately \$2.3 million, respectively. We estimate that a hypothetical 10% strengthening (or weakening) of the U.S. dollar for fiscal 2012 would have an immaterial impact on our business.

In addition, the net assets of these subsidiaries are exposed to foreign currency translation gains and losses which are included as a component of accumulated other comprehensive income in stockholders' equity in our unaudited condensed consolidated balance sheets. Such translation resulted in unrealized losses of \$2.5 million as of March 31, 2012, and unrealized gains of \$0.8 million as of March 31, 2011.

We may enter into foreign currency forward contracts, generally with maturities of twelve months or less, to hedge recognized foreign currency assets and liabilities to reduce the risk that earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. See Note 1 to the unaudited condensed consolidated financial statements, *Description of Business and Summary of Significant Policies (Fair value of financial instruments)*.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) promulgated under the Exchange Act, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e) and 15d-15(e) as of the end of the period covered by this report.

Based on this evaluation our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2012.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable and not absolute assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected or that judgments in decision-making are not based on faulty input.

Changes in Internal Control Over Financial Reporting during the Quarter Ended March 31, 2012

Although we update our internal controls as necessary to accommodate any modifications to our business processes and accounting procedures as part of our normal operations, there were no changes in our internal control over financial reporting that occurred in the three months ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II****ITEM 1. LEGAL PROCEEDINGS**

For a description of our legal proceedings, see Note 8 to the unaudited condensed consolidated financial statements, *Commitments and Contingencies*, which is incorporated by reference in response to this item.

ITEM 1A. RISK FACTORS

We are subject to risks and uncertainties that could cause our actual results to differ materially from the expectations expressed in the forward looking statements. Factors that could cause our actual results to differ from expectations are described under Item 1A. Risk Factors in the 2011 10-K, to which there were no material changes during the period covered by this Quarterly Report on Form 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 4, 2010, the Company's Board of Directors approved a new share repurchase plan under which, subject to price and market conditions, purchases of shares of common stock can be made from time to time in the open market or in private negotiated transactions using available cash, in an aggregate amount of up to \$150 million. On April 6, 2011, the Company's Board of Directors increased the share repurchase plan amount to an amount equal to \$550 million minus the amount repurchased in the Company's Dutch auction tender offer described under Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in the 2011 10-K.

Our quarterly share repurchases under this plan, excluding treasury shares acquired in non-cash transactions related to forfeited stock awards and shares exchanged for options exercised, were as follows:

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid Per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Be Purchased Under the Plans or Programs |
|--------------------------------|--|---|--|--|
| | | | | \$ 110,727,406 |
| January 1 - January 31, 2012 | | \$ | | \$ 110,727,406 |
| February 1 - February 29, 2012 | 304,694 | \$ 44.17 | 304,694 | \$ 97,270,014 |
| March 1 - March 31, 2012 | 591,882 | \$ 45.99 | 591,882 | \$ 70,052,049 |
| Total | 896,576 | \$ 45.37 | 896,576 | 70,052,049 |

Edgar Filing: BALLY TECHNOLOGIES, INC. - Form 10-Q

On May 2, 2012, the Company's Board of Directors approved a new \$150 million share-repurchase program, which replaced the repurchase program referenced above.

Table of Contents**ITEM 6. EXHIBITS**

| Exhibits | Description |
|-----------------|---|
| 31.1 | Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document * |
| 101.SCH | XBRL Taxonomy Extension Schema Document * |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document * |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document * |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document * |

* Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, or Section 18 of the Exchange Act, and otherwise are not subject to liability.

Table of Contents

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.

BALLY TECHNOLOGIES, INC.

Date: May 7, 2012

By /s/Richard Haddrill
Richard Haddrill
Chief Executive Officer
(Principal Executive Officer)

By /s/Neil P. Davidson
Neil P. Davidson
Senior Vice President, Chief Financial Officer and
Treasurer
(Principal Financial and Accounting Officer)