BALLY TECHNOLOGIES, INC.
Form 10-Q
February 03, 2010
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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 December 31, 2009

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	**88-0104066**
(State or other jurisdiction of incorporation or organization)	(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. x Yes o 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). o Yes o 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 x	Accelerated Filer o
Non-Accelerated Filer o (do not check if a smaller reporting company)	Smaller Reporting Company o

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

The number of shares of Common Stock, $0.10 par value, outstanding as of February 1, 2010, was 55,222,000 which do not include 3,673,000 shares held in treasury.

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PART I

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

		December 31, 2009		June 30, 2009
		(in 000s, except share amounts)		
ASSETS				
Current assets:				
Cash and cash equivalents	$	71,315	$	64,598
Restricted cash		7,587		9,076
Accounts and notes receivable, net of allowances for doubtful accounts of $9,165 and $8,939		212,778		174,698
Inventories		43,692		52,942
Prepaid and refundable income tax		31,416		43,756
Deferred income tax assets		38,800		36,114
Deferred cost of revenue		17,990		21,906
Prepaid assets		12,772		7,531
Other current assets		5,452		13,018
Total current assets		441,802		423,639
Restricted long-term investments		12,304		12,097
Long-term receivables		23,447		9,826
Property, plant and equipment, net of accumulated depreciation of $69,846 and $64,113		74,330		76,889
Leased gaming equipment, net of accumulated depreciation of $137,743 and $117,638		88,697		95,012
Goodwill		162,085		161,960
Intangible assets, net		36,721		32,198
Deferred income tax assets		15,380		15,373
Long-term deferred cost of revenue		35,997		41,615
Other assets, net		10,504		12,273
Total assets	$	901,267	$	880,882
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	21,328	$	20,574
Accrued liabilities		37,066		47,405
Customer deposits		9,226		10,375
Jackpot liabilities		10,825		12,266
Deferred revenue		43,091		49,122
Income tax payable		2,005		2,971
Current maturities of long-term debt		37,547		35,337
Total current liabilities		161,088		178,050
Long-term debt, net of current maturities		153,750		173,750
Long-term deferred revenue		50,341		60,464
Other income tax liability		19,842		22,072
Other liabilities		8,418		7,797
Total liabilities		393,439		442,133
Commitments and contingencies (Note 9)				
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; 58,606,000 and 57,091,000 shares issued and 55,028,000 and 54,312,000 outstanding		5,854		5,703

Treasury stock at cost, 3,578,000 and 2,779,000 shares		(96,148)		(64,727)
Additional paid-in capital		366,479		330,465
Accumulated other comprehensive loss		(470)		(770)
Retained earnings		229,500		165,623
Total Bally Technologies, Inc. stockholders equity		505,227		436,306
Noncontrolling interests		2,601		2,443
Total stockholders equity		507,828		438,749
Total liabilities and stockholders equity	$	901,267	$	880,882

See accompanying notes to unaudited condensed consolidated financial statements.

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BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(in 000s, except per share amounts)			
Revenues:				
Gaming equipment and systems	$ 136,395	$ 157,241	$ 252,416	$ 316,815
Gaming operations	68,578	66,407	139,887	134,183
Casino operations	8,500	9,646	17,655	19,694
	213,473	233,294	409,958	470,692
Costs and expenses:				
Cost of gaming equipment and systems (1)	53,803	65,710	104,175	142,532
Cost of gaming operations	20,898	20,999	39,989	41,559
Direct cost of casino operations	3,624	4,320	7,489	8,675
Selling, general and administrative	55,552	58,027	102,499	115,234
Research and development costs	19,571	19,331	39,042	39,202
Depreciation and amortization	5,653	5,458	11,477	10,564
	159,101	173,845	304,671	357,766
Operating income	54,372	59,449	105,287	112,926
Other income (expense):				
Interest income	685	947	1,330	2,103
Interest expense	(3,252)	(6,188)	(6,538)	(11,281)
Other, net	(1,096)	(1,664)	(968)	(4,230)
Income before income taxes	50,709	52,544	99,111	99,518
Income tax expense	(17,106)	(18,670)	(34,151)	(35,807)
Net income	33,603	33,874	64,960	63,711
Less net income (loss) attributable to noncontrolling interests	350	310	1,083	(157)
Net income attributable to Bally Technologies, Inc.	$ 33,253	$ 33,564	$ 63,877	$ 63,868
Basic and diluted earnings per share:				
Basic earnings attributable to Bally Technologies, Inc. per share	$ 0.61	$ 0.62	$ 1.17	$ 1.17
Diluted earnings attributable to Bally Technologies, Inc. per share	$ 0.58	$ 0.59	$ 1.11	$ 1.11
Weighted average shares outstanding:				
Basic	54,518	54,419	54,393	54,745
Diluted	57,750	56,731	57,718	57,428

(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.

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BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER S EQUITY

	Common Stock Shares	Common Stock Dollars	Series E Special Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Deficit) (OCI)	Retained Earnings	Noncontrolling Interests	Total Stockholders Equity
					(in 000s)				
Balances at June 30, 2008	56,318	$ 5,626	$ 12	$ (25,041)	$ 302,146	$ 1,268	$ 39,314	$ 1,782	$ 325,107
Net income (loss)							63,868	(157)	63,711
Foreign currency translation adjustment						(580)			(580)
Unrealized loss on derivative financial instruments						(680)			(680)
Total comprehensive income									$ 62,451
Distributions to noncontrolling interests								(662)	(662)
Restricted stock issued	57	6			(6)				
Receipt of stock from exercise of stock options and tax liability on restricted stock				(692)					(692)
Purchase of common stock for treasury				(27,035)					(27,035)
Share-based compensation					7,096				7,096
Shares issued upon exercise of stock options	394	39			7,224				7,263
Shares issued under ESPP plan	39	4			752				756
Tax benefit of employee stock option exercises					1,554				1,554
Balances at December 31, 2008	56,808	$ 5,675	$ 12	$ (52,768)	$ 318,766	$ 8	$ 103,182	$ 963	$ 375,838
Balances at June 30, 2009	57,091	$ 5,703	$ 12	$ (64,727)	$ 330,465	$ (770)	$ 165,623	$ 2,443	$ 438,749
Net income							63,877	1,083	64,960
Foreign currency translation adjustment						1,231			1,231
Unrealized loss on derivative financial instruments						(931)			(931)
Total comprehensive income									$ 65,260
Distributions to noncontrolling interests								(925)	(925)
Restricted stock issued and RSUs released	113	11			(11)				
Receipt of stock from exercise of stock options and tax liability on restricted stock				(360)					(360)
				(31,061)					(31,061)

Purchase of common stock for treasury									
Shares issued upon exercise of warrants	14	2			(2)				
Share-based compensation					7,131				7,131
Shares issued upon exercise of stock options	1,363	135			18,352				18,487
Shares issued under ESPP plan	25	3			866				869
Tax benefit of employee stock option exercises					9,678				9,678
Balances at December 31, 2009	58,606	$ 5,854	$ 12	$ (96,148)	$ 366,479	$ (470)	$ 229,500	$ 2,601	$ 507,828

See accompanying notes to unaudited condensed consolidated financial statements.

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BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(in 000s)	
Cash flows from operating activities:		
Net income	$ 64,960	$ 63,711
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,083	34,982
Share-based compensation	7,131	7,096
Amortization of deferred debt issuance costs	1,405	703
Income tax (benefit) expense	(4,541)	281
Provision for doubtful accounts	870	193
Write-off of debt issuance costs		786
Inventory and other asset write-downs	1,216	2,810
Excess tax benefit of stock option exercises	(9,047)	(565)
Other	786	2,825
Changes in operating assets and liabilities:		
Accounts and notes receivable	(44,314)	19,357
Inventories	(12,572)	10,992
Prepaid and refundable income tax and income tax payable	21,052	(5,203)
Other current assets	2,317	(2,004)
Accounts payable	730	(15,028)
Accrued liabilities, customer deposits and jackpot liabilities	(12,027)	(27,174)
Deferred revenue and deferred cost of revenue	(6,619)	(20,246)
Net cash provided by operating activities	50,430	73,516
Cash flows from investing activities:		
Capital expenditures	(6,491)	(14,016)
Restricted cash and investments	1,282	(2,844)
Financing arrangement with customers	(15,750)	
Additions to other long-term assets	(2,006)	(4,095)
Net cash used in investing activities	(22,965)	(20,955)
Cash flows from financing activities:		
Capitalized debt issuance costs		(10,728)
Pay-off of debt from refinancing		(14,553)
Reduction of long-term debt and capital leases	(17,813)	(9,233)
Distributions to noncontrolling interests	(925)	(662)
Purchase of treasury stock	(31,421)	(27,727)
Excess tax benefit of stock option exercises	9,047	565
Proceeds from exercise of stock options and employee stock purchases	19,356	8,019
Net cash used in financing activities	(21,756)	(54,319)
Effect of exchange rate changes on cash	1,008	(1,603)
Cash and cash equivalents:		
Increase (decrease) for period	6,717	(3,361)
Balance, beginning of period	64,598	66,570
Balance, end of period	$ 71,315	$ 63,209

See accompanying notes to unaudited condensed consolidated financial statements.

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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:

	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(in 000s)	
Cash paid for interest	$ 6,118	$ 15,963
Cash paid for income taxes, net of refunds	11,960	38,005
Non-cash investing and financing transactions:		
Pay-off of debt from refinancing	$	$ 275,000
Transfer of inventory to leased gaming equipment (1)	21,019	24,132
Reclassify property, plant and equipment to inventory (1)	2,451	6,767
Acquisition of Bally trademark	7,500	
Accrual of capital expenditures	393	1,334

(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.

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BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 reflect all adjustments, consisting of normal recurring adjustments, which management believes are necessary to fairly present the financial position, results of operations and cash flows of Bally Technologies, Inc. (Bally or the Company), a Nevada corporation, and its subsidiaries for the respective periods presented. 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, 2009. References to specific U.S. GAAP within this report cite topics within the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

The Company is the general partner of Rainbow Casino Vicksburg Partnership (RCVP), which operates the Rainbow Casino. The limited partner is entitled to receive 10% of the net available cash flows of RCVP after debt service and other items, as defined in the limited partnership agreement, which increases to 20% of the net available cash flows based on the incremental amount of revenues in excess of $35.0 million, payable quarterly through December 31, 2010. The Company holds the remaining economic interest in the partnership. The Company consolidates RCVP and records an adjustment to reflect the portion of the earnings of RCVP attributable to the limited partner as a noncontrolling interest.

All intercompany accounts and transactions have been eliminated in consolidation.

The Company has evaluated the financial statements for subsequent events occurring between the end of our most recent fiscal quarter and February 2, 2010, the date of filing of this Form 10-Q.

Expense classification

The classification of certain costs within the Unaudited Condensed Consolidated Statement of Operations for the three and six months ended December 31, 2008 has been corrected to conform to the current year presentation. The reclassification reflects certain costs of services associated with revenue presented in *Cost of gaming equipment and systems* of $1.5 million and $2.7 million for the three and six months ended December 31, 2008, respectively, that had previously been presented as a component of *Selling, general and administrative expenses*. This correction was not material to the previously issued financial statements and did not have any impact on income from continuing operations, earnings per share, retained earnings, or cash flows.

Recently adopted accounting pronouncements - revenue recognition

Effective July 1, 2009, the Company adopted the provisions of two new Accounting Standards Updates (ASU) affecting revenue recognition: ASU No. 2009-13, *Multiple Deliverable Revenue Arrangements* and ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements.* The Company has elected to adopt these ASUs prior to the required effective date using the prospective method as permitted under the guidance. Accordingly, this guidance is being applied to all new or materially modified revenue arrangements entered into since the start of the Company s fiscal year of adoption, which is July 1, 2009.

ASU No. 2009-13 replaces and significantly changes the existing separation criteria for multiple-deliverable revenue arrangements by eliminating the criterion for objective and reliable evidence of fair value for the undelivered products or services to determine a unit of accounting. Instead, revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables meet both of the following criteria:

- The delivered items have value to the customer on a standalone basis. The item or items have value on a standalone basis if they are sold separately by any vendor or the customer could resell the delivered item(s) 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 vendor.

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ASU No 2009-13 also eliminates the use of the residual method of allocation and requires, instead, that arrangement consideration be allocated, at the inception of the arrangement, to all deliverables based on their relative selling price (i.e., the relative selling price method). 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).

ASU No 2009-14 amends the scope of software revenue recognition 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. Prior to July 1, 2009, the Company determined its gaming devices included software that was more than incidental to the product as a whole; accordingly, the sales of gaming devices was accounted for under the scope of software revenue recognition guidance. Application of the new guidance resulted in the Company determining that gaming devices no longer fall under the scope of software revenue recognition guidance. Under the new guidance, which applies to new or modified arrangements since July 1, 2009, revenue related to systems arrangements that contain software and nonsoftware deliverables require an allocation of the arrangement fee to the separate deliverables using the relative selling price method. Revenue for the software deliverables continue to be recognized under the software revenue recognition guidance, while revenue for the nonsoftware deliverables, such as gaming devices and other hardware, are no longer accounted for under the software revenue recognition guidance.

The impact of applying the new accounting guidance to new or materially modified arrangements entered into since July 1, 2009, is as follows:

	Three Months Ended December 31, 2009		Six Months Ended December 31, 2009	
	As Reported	**Pro Forma Basis as if the Previous Accounting Guidance Were in Effect**	**As Reported**	**Pro Forma Basis as if the Previous Accounting Guidance Were in Effect**
		(in 000s)		
Revenues:				
Gaming Equipment	$ 78,791	$ 73,314	$ 140,794	$ 133,649
Systems	57,604	56,754	111,622	110,772
Gaming equipment and systems	$ 136,395	$ 130,068	$ 252,416	$ 244,421

The impact on future periods is dependent upon the prevalence of multiple deliverable arrangements whereby a combination of gaming devices, hardware, software, maintenance and product support fees and consulting services are sold under one arrangement and the software license is time-based. Under such arrangements, all revenue was previously recognized ratably over the term of the time-based license as the Company was unable to establish VSOE of fair value for the software maintenance and product support, which runs contemporaneously with the license period. Under the new guidance, revenue from non-software elements delivered under such multiple deliverable arrangements will no longer be deferred if VSOE of fair value does not exist for an undelivered element. Rather, the revenue allocated to the non-software elements using the relative selling price method would be recognized upon delivery and customer acceptance, and only the revenue allocated to the software elements will be deferred and recognized over the term of the time-based license.

In allocating the arrangement fees to separate deliverables under the new accounting guidance, the Company used VSOE of selling price for gaming devices, maintenance and professional services; a combination of TPE and ESP for hardware, and ESP for system software deliverables. ESP for system software was determined based upon the Company s normal pricing and discounting practices.

Other recently adopted accounting pronouncements

On July 1, 2009, the Company adopted the new FASB ASC which establishes two levels of U.S. GAAP: authoritative and nonauthoritative. The ASC is now the single source of authoritative nongovernmental U.S. GAAP. All other literature is considered non-authoritative. The Company s adoption of this statement had no impact on the consolidated results of operations, financial position and cash flows, but rather changes the reference used to cite specific FASB accounting literature.

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On July 1, 2009, the Company adopted new accounting guidance related to business combinations which clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use. This guidance requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. Future effects will be dependent upon acquisitions of defensive intangible assets, if any, at that time. In addition, there is new guidance for determining the useful life of a recognized intangible asset. This guidance is applied prospectively to intangible assets acquired after the effective date. However, the disclosure requirements are applied prospectively to all intangible assets recognized in financial statements. In addition, the new guidance requires that an acquiring entity recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions, requires the expense of acquisition costs, and also includes a substantial number of new disclosure requirements. The Company s adoption of this guidance did not have a significant impact on the disclosures or the consolidated results of operations, financial position and cash flows for the three and six months ended December 31, 2009.

On July 1, 2009, the Company adopted new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this guidance requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. This guidance also clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. The guidance also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The adoption of this statement did not have a material impact on the consolidated results of operations, financial position and cash flows, but did affect presentation and disclosure. As a result of the adoption, the Company reclassified noncontrolling interests in the amount of $2.4 million from minority interest to equity in the June 30, 2009 Unaudited Condensed Consolidated Balance Sheets and Statements of Stockholders Equity. Certain reclassifications to the Unaudited Condensed Consolidated Statements of Operations and Unaudited Condensed Consolidated Statements of Cash Flows have been made to prior period amounts to conform to the presentation of the current period. Recorded amounts for prior periods previously presented as Net income which are now presented as Net income attributable to Bally Technologies Incorporated, have not changed as a result of the adoption of this guidance.

On July 1, 2009, the Company adopted new accounting guidance requiring additional disclosures about fair value of financial instruments in interim and annual financial statements. The Company s adoption of this guidance resulted in the disclosure of information about the fair value of financial instruments consistent with the disclosures in the Company s most recent annual financial statements.

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 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.

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The Company s only significant financial asset or liability measured at fair value on a recurring basis, excluding accrued interest components, consisted of a cash flow hedge related to a variable rate debt instrument as of December 31, 2009 (which is included in accrued liabilities in the unaudited condensed consolidated balance sheets) as follows:

	Level 1	Fair Value Measurements Using Input Type Level 2 (in 000s)	Total
Liability:			
Derivative financial instrument	$	$ 1,040	$

At June 30, 2009, the derivative financial instrument was an asset valued at $255,000. The valuation techniques used to measure the fair value of the derivative financial instrument 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. See Note 4 to unaudited condensed consolidated financial statements, *Long-Term Debt*.

Accounting for Derivative Instruments and Hedging Activity

The Company assesses, both at the inception of each 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 derivative financial instrument meets these requirements and is accounted for as a cash flow hedge.

The impact of the cash flow hedge on the unaudited condensed consolidated financial statements is depicted below:

Fiscal 2010:

Derivative in Cash Flow Hedging Relationship	**Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)** Three Months Ended December 31, 2009	Six Months Ended December 31, 2009	**Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (in 000s)**	**Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)** Three Months Ended December 31, 2009	Six Months Ended December 31, 2009
Interest rate swap agreement	$ (568)	$ (2,798)	Interest expense	$ (822)	$ (1,503)

Fiscal 2009:

Derivative in Cash Flow Hedging Relationship	**Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Three Months Ended December 31, 2008**	**Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Six Months Ended December 31, 2008**	**Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (in 000s)**	**Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended December 31, 2008**	**Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Six Months Ended December 31, 2008**
Interest rate swap agreement	$ (680)	$ (680)	Interest expense	$	$

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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:

	December 31, 2009	June 30, 2009
	(in 000s)	
Raw materials	$ 34,726	$ 40,662
Work-in-process	1,007	1,432
Finished goods	7,959	10,848
Total	$ 43,692	$ 52,942

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

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Six Months Ended December 31, 2009	Six Months Ended December 31, 2008
	(in 000s, except per share amounts)			
Net income attributable to Bally Technologies, Inc.	$ 33,253	$ 33,564	$ 63,877	$ 63,868
After tax interest expense on convertible debt		62	14	131
Diluted earnings attributable to Bally Technologies, Inc.	$ 33,253	$ 33,626	$ 63,891	$ 63,999
Weighted average common shares outstanding	54,518	54,419	54,393	54,745
Dilutive effect of:				
Stock options, Restricted Stock Units (RSU) and restricted stock	3,206	2,038	3,257	2,436
Warrants	26		24	11
Convertible debt (1)		274	44	236
Weighted average diluted shares outstanding	57,750	56,731	57,718	57,428
Basic earnings attributable to Bally Technologies, Inc. per share	$ 0.61	$ 0.62	$ 1.17	$ 1.17
Diluted earnings attributable to Bally Technologies, Inc. per share	$ 0.58	$ 0.59	$ 1.11	$ 1.11

(1) The Company had certain related party debt outstanding which was convertible into common stock at the Company s discretion. The related party debt was paid in full in December 2009. See Note 5 to unaudited condensed consolidated financial statements, *Related Party Transactions*.

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 December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	(in 000s)			
Stock options, RSU and restricted stock	394	2,523	323	869
Warrants		100		
	394	2,623	323	869

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3. GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following:

		December 31, 2009			June 30, 2009		
	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	$ 33,794	$ (25,874)	$ 7,920	$ 27,488	$ (19,083)	$ 8,405
License rights	3 - 5	3,764	(1,952)	1,812	2,117	(1,814)	303
Trademarks	5	2,203	(1,889)	314	2,203	(1,693)	510
Core technology	5 - 8	22,763	(8,465)	14,298	22,763	(6,585)	16,178
Contracts	10	10,043	(5,866)	4,177	10,043	(5,364)	4,679
Other intangibles	3 - 7	1,686	(986)	700	7,627	(5,504)	2,123
Total finite lived intangible assets		74,253	$ (45,032)	$ 29,221	$ 72,241	$ (40,043)	$ 32,198
Trademark	indefinite	7,500		7,500			
Total		$ 81,753	$ (45,032)	$ 36,721	$ 72,241	$ (40,043)	$ 32,198

In September 2009, the Company recorded an intangible asset of approximately $7.5 million related to one-time consideration given for a perpetual, world-wide license for the use of the Bally trademark in connection with the Company s business. Consideration for this intangible asset included approximately $5.0 million related to the delivery of gaming devices and $2.5 million in forgiveness of certain customer receivable balances. Previously, a royalty fee was paid and expensed based upon the number of units produced and sold using the trademark.

Total amortization expense related to finite lived intangible assets for the three months ended December 31, 2009 and 2008 was $2.5 million and $2.3 million, respectively, which included computer software amortization expense of $1.1 million and $1.0 million, respectively. Total amortization expense related to finite lived intangible assets for the six months ended December 31, 2009 and 2008 was $5.0 million and $4.5 million, respectively, which included computer software amortization expense of $2.3 million and $2.0 million, respectively. Future amortization of finite lived intangible assets is scheduled as follows:

Year Ended June 30,	(in 000s)
2010 (remaining six months of fiscal year)	$ 5,151
2011	8,519
2012	6,261
2013	5,170
2014	1,516
Thereafter	2,604
Total	$ 29,221

All goodwill is associated with the Gaming Equipment and Systems segment. The changes in the carrying amount of goodwill for the six months ended December 31, 2009, are as follows:

		(in 000s)
Balance at June 30, 2009	$	161,960
Foreign currency translation adjustment		125
Balance at December 31, 2009	$	162,085

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4. LONG-TERM DEBT

Long-term debt consists of the following:

		December 31, 2009		June 30, 2009
		(in 000s)		
Term loan facility	$	191,250	$	206,250
Related party debt (see Note 5)				2,800
Other, generally unsecured		47		37
Long-term debt		191,297		209,087
Less current maturities		(37,547)		(35,337)
Long-term debt, net of current maturities	$	153,750	$	173,750

On September 29, 2008, the Company entered into a $225.0 million term loan and a $75.0 million revolving credit facility (collectively, the Credit Facility). The Credit Facility matures in September 2012. The Company has the option to request an increase in the size of the term loan and/or revolving credit facility by up to $50.0 million in the aggregate provided that certain conditions are met. The proceeds from the Credit Facility and cash-on-hand of $14.6 million were used to repay the then existing bank term loans totaling $289.6 million. The Company also used cash-on-hand to pay for transaction fees and expenses totaling $10.7 million, which are being amortized to interest expense over the term of the Credit Facility.

As of December 31, 2009, there was approximately $75.0 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.

The interest rate on the term loan is subject to a leverage-based pricing grid. If the Company s leverage ratio, as defined under the term loan, is greater than 1.5, the interest rate will be LIBOR plus a margin of 3.25%; if the leverage ratio is between 1.0 and 1.5, the interest rate will be LIBOR plus a margin of 3.00%; and if the leverage ratio is below 1.0, the interest rate will be LIBOR plus a margin of 2.75%. In December 2008, the Company entered into a floating-to-fixed interest rate swap, as discussed below, fixing the interest rate of the term loan at 1.89% plus the applicable margin (2.75% at December 31, 2009) for the remaining term.

The term loan is in its second year and requires quarterly principal reductions of $8.75 million through September 30, 2010 and $11.25 million during each of the third and fourth years of the agreement, with a balloon payment due at maturity in September 2012. 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 Credit Facility contains a number of covenants that, among other things, restrict the ability of the Company 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 the Company s 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 a fixed charges 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 fixed charges coverage ratio is computed as EBITDA, adjusted for both the trailing twelve months capital expenditures, share repurchases and cash taxes paid, divided by the trailing twelve months interest charges plus all payments of principal made during the previous twelve months.

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 December 31, 2009.

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The Company s related party debt, which totaled approximately $2.8 million as of June 30, 2009, was paid in full during the quarter. It consisted of the debt owed to the former principals of Sierra Design Group (SDG). See Note 5, *Related Party Transactions*.

Interest Rate Swap Agreement

In 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. This interest rate swap serves to fix the floating LIBOR based debt under the term loan to fixed rate debt at an interest rate of 1.89% plus the applicable margin to manage the risk exposure to interest rate fluctuations.

The Company has documented and designated this interest rate swap as a cash flow hedge. Based on the assessment of effectiveness using statistical regression, the Company determined that the interest rate swap is effective. Effectiveness testing of the hedge relationship and measurement to quantify ineffectiveness is performed each fiscal quarter using the hypothetical derivative method. As the interest rate swap qualifies as a cash flow hedge, the Company adjusts the cash flow hedge on a quarterly basis to its fair value with a corresponding offset to accumulated OCI. The interest rate swap has been and is expected to remain highly effective for the life of the hedge. 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 December 31, 2009, the Company had no ineffectiveness on its cash flow hedge. Amounts related to the swap expected to be reclassified from other comprehensive income to interest expense in the next twelve months total $2.3 million.

Additional information on the Company s interest rate swap is as follows:

Interest Rate Swaps	**Balance Sheet Location**	**Fair Value (in 000s)**		**Location of Offsetting Balance**
Cash flow hedge $191.3 million LIBOR based debt	Accrued Liabilities	$	1,040	Accumulated other comprehensive loss

5. RELATED PARTY TRANSACTIONS

In connection with the acquisition of SDG, the consideration paid included subordinated debt issued to the former principals of SDG. Certain of the former principals are now employees of the Company. At the Company s discretion, the principal and accrued interest thereon can be paid in cash, or can be converted into shares of the Company s common stock using the average stock price for the 20 business days prior to the delivery of such shares. As of June 30, 2009, the subordinated debt totaled $2.8 million, all of which was included in current maturities. The subordinated debt was paid in full in December 2009.

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6. SHARE-BASED COMPENSATION

Employee Stock Purchase Plan

In February 2008, the Company s stockholders approved the 2008 Employee Stock Purchase Plan (the 2008 ESPP Plan). The 2008 ESPP Plan 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 on date of purchase. During the six months ended December 31, 2009 and 2008, employees purchased 24,935 shares and 39,305 shares of common stock for approximately $0.9 million and $0.8 million, respectively, under the 2008 ESPP Plan.

Share-Based Award Plans

Stock option activity as of and for the six months ended December 31, 2009 is summarized below:

		Weighted Average		
	Shares (in 000s)	Exercise Price (per share)	Remaining Contractual Term (years)	Aggregate Intrinsic Value (in 000s)
Balance outstanding as of June 30, 2009	6,903	$ 17.96		$ 85,222
Granted	317	40.10		
Exercised	(1,363)	13.57		
Forfeited or expired	(38)	27.45		
Balance outstanding as of December 31, 2009	5,819	$ 20.13	5.09	$ 123,679
Exercisable as of December 31, 2009	4,348	$ 17.92	4.76	$ 101,816

Restricted stock and RSU activity as of and for the six months ended December 31, 2009 is summarized below:

	Restricted Stock (in 000s)	Weighted Average Grant Date Fair Value (per share)	RSUs (years)	Weighted Average Grant Date Fair Value (in 000s)
Balance outstanding as of June 30, 2009	310	$ 30.42	623	$ 17.71
Granted	105	38.98	42	38.98
Released	(26)	21.38	(8)	41.60
Forfeited or expired				
Balance outstanding as of December 31, 2009	389	$ 33.35	657	$ 18.77
Vested as of December 31, 2009			537	$ 16.18

Share-Based Compensation

The following table presents share-based compensation expense included in the Company s unaudited condensed consolidated statements of operations:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	(in 000s)			
Selling, general and administrative	$ 2,818	$ 2,874	$ 5,459	$ 5,769
Research and development	777	633	1,596	1,259
Cost of gaming equipment and systems and operations	37	31	76	68
Share-based compensation expense before tax	3,632	3,538	7,131	7,096
Income tax benefit	1,271	1,239	2,496	2,484
Net share-based compensation expense	$ 2,361	$ 2,299	$ 4,635	$ 4,612

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As of December 31, 2009, there was $14.6 million of total unrecognized compensation expense related to the unvested portion of stock options which will be recognized over the subsequent 1.90 years. In addition, as of December 31, 2009, there was $10.0 million of total unrecognized compensation expense related to the unvested portion of restricted stock and RSUs which will be recognized over the subsequent 1.70 years.

7. STOCKHOLDERS EQUITY, WARRANTS AND RIGHTS

Warrants

The Company issued 100,000 stock purchase warrants in February 2004 in connection with an acquisition. The strike price of the warrant is $24.69 with a term of seven years. During the six months ended December 31, 2009, 36,710 stock purchase warrants were exercised and converted into 14,290 shares of the Company s common stock. The exercises were cashless and net shares were issued for the difference between the strike price of the warrant and the market value of the Company s common stock upon exercise.

Share Repurchase Plan

On January 28, 1999, the Company s Board of Directors approved a share repurchase plan under which, subject to price and market conditions, purchases of shares could be made from time to time in the open market or in privately negotiated transactions using available cash. The Company s share repurchase limit was set on August 12, 2008 under the existing share repurchase plan at $100 million. On December 2, 2009, the Board of Directors approved a new share repurchase plan to purchase up to $100 million of common stock effective January 1, 2010. The new plan replaced the Company s existing $100 million share repurchase plan.

During the six months ended December 31, 2009 and 2008, the Company repurchased 793,869 shares and 1,066,000 shares of common stock for $31.1 million and $27.0 million, respectively, under the previous share repurchase plan. As of January 1, 2010, $100.0 million is available to be repurchased under the new share repurchase plan.

Special Stock

The Company s Articles of Incorporation authorize the issuance of up to 10,000,000 shares of special stock (Special Stock). The Special Stock may be issued from time to time in one or more series, each having such designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions as shall be stated and expressed in the resolution providing for the issuance of Special Stock or any series thereof adopted by the Board of Directors. Special Stock consists of non-voting stock where no holder of the Special Stock shall be entitled to vote at any meeting of stockholders or otherwise, except as may be specifically provided by law or as approved by the Board of Directors in certain limited circumstances at the time of the stock issuance.

To date, there have been four series of Special Stock authorized for issuance: the Initial Series, the Series B, the Series E and the Series F. In June 1996, the Company issued shares of Series E Special Stock to certain holders of the Company s 71/2% Convertible Subordinated Debentures (which were retired in 1996) who elected to receive such stock in lieu of receiving common stock. The holders of shares of Series E Special Stock have no voting rights except as required by law. A total of 115 shares of Series E Special Stock remain outstanding. No other shares of Special Stock remain outstanding.

8. 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. The effective income tax rate was approximately 33.7% and 35.5% for the three months ended December 31, 2009 and 2008, respectively, and 34.5% and 36.0% for the six months ended December 31, 2009 and 2008, respectively. The lower rate in fiscal 2010 predominantly reflects changes in the forecasted geographical mix of taxable income for the fiscal year.

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The Internal Revenue Service (IRS) is examining the Company s United States federal income tax returns for 2003 through 2005. Throughout the examination, the IRS has proposed, and management has agreed to certain adjustments related to the open tax years that have been recorded in the income tax provision. In January 2009, the IRS completed its field examination of the open tax years and issued a Revenue Agent s Report (RAR). Also in January 2009, 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 the case was assigned to the IRS Appeals Office in August 2009. The opening conference with the IRS Appeals Officer is set for March 2010. 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 $4.8 million, excluding interest. If the IRS were to prevail in full, it would result in additional income tax provisions of approximately $5.4 million, plus interest, for the tax years through 2005.

It is reasonably possible that within the next twelve months the Company will resolve some of the matters 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 December 31, 2009, the Company has accrued $17.1 million related to uncertain tax positions, excluding related accrued interest and penalties, $15.2 million of which, if recognized, would impact the effective tax rate. As of December 31, 2009, the Company has $5.4 million accrued for the payment of interest and penalties.

9. COMMITMENTS AND CONTINGENCIES

Litigation

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, or other sources are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. The Company has not recorded any loss accruals for these contingencies.

On December 7, 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, such as Monte Carlo , Lucky Wheel and Cash For Life , its games with a reel in the top box, such as Bonus Frenzy , 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 court also found issues of material fact regarding IGT s alleged inequitable conduct before the U.S. Patent and Trademark Office and denied IGT s motions to dismiss those claims, leaving them for trial. However, the court postponed the trial until after IGT has appealed the court s summary judgments on patent infringement and validility. IGT appealed, and on October 22, 2009, the U.S. Court of Appeals for the Federal Circuit affirmed the District Court s decision in its entirety.

In April 2006, 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. Of the nine patents and 200 claims originally filed in the case by IGT, all but three patents and eight claims have been dismissed. On April 28, 2009, the District Court issued an order finding that the Company s Power Promotions, Power Bank, and SDS/CMP Power Winners products do not infringe IGT s patents. The court also found that the Company s ACSC Power Winners and ACSC Power Reward products infringe some patent claims asserted by IGT, but not others. Appeals by both parties are expected. In the meantime, the Company has undertaken technical changes to ensure non-infringement for the two products partially in question, and on December 22, 2009, the court denied IGT s motion for a permanent injunction against the products. The Company does not believe that potential infringement damages, if any, would be material to its financial position as the revenues from these two products to date have not been material.

In September 2006, the Company filed a patent infringement lawsuit against IGT in the United States District Court for the District of Nevada. The complaint asserted that certain of IGT s bonus wheel games infringe a patent held by the Company, and sought injunctive relief and damages. IGT filed an answer generally denying the claims and filed a motion for summary judgment which was granted in September 2008 declaring the wheel patent obvious and therefore invalid. On October 22, 2009, the U.S. Court of Appeals for the Federal Circuit affirmed the District Court s decision.

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10. SEGMENT AND GEOGRAPHICAL INFORMATION

The Company operates in two business segments: (i) Bally Gaming Equipment and Systems which designs, manufactures, assembles, distributes and operates gaming devices and licenses computerized monitoring and bonusing systems for gaming devices, and (ii) Casino Operations which owns and operates a casino in Vicksburg, Mississippi.

Certain expenses related to Company-wide initiatives are managed at the corporate level and are not allocated to either operating segment. The accounting policies of these segments are consistent with the Company s policies for the unaudited consolidated condensed financial statements.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2008	2009	2008
	(in 000s)			
Revenues:				
Gaming Equipment and Systems				
Gaming Equipment	$ 78,791	$ 101,335	$ 140,794	$ 208,575
Gaming Operations	68,578	66,407	139,887	134,183
Systems	57,604	55,906	111,622	108,240
	204,973	223,648	392,303	450,998
Casino Operations	8,500	9,646	17,655	19,694
Total revenues	$ 213,473	$ 233,294	$ 409,958	$ 470,692
Gross Margin(1):				
Gaming Equipment and Systems				
Gaming Equipment	$ 41,418	$ 49,944	$ 70,912	$ 97,288
Gaming Operations	47,680	45,408	99,898	92,624
Systems	41,174	41,587	77,329	76,995
	130,272	136,939	248,139	266,907
Casino Operations	4,876	5,326	10,166	11,019