

BALLY TECHNOLOGIES, INC.

Form 10-Q

October 31, 2014

[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 September 30, 2014**

**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 October 27, 2014, was 38,371,000 which does not include 27,800,000 shares held in treasury.



Table of Contents

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I.</u></b>	
<b><u>FINANCIAL INFORMATION</u></b>	<b>3</b>
<u>Item 1.</u>	
<u>Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2014 and June 30, 2014</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended September 30, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity for the Three Months Ended September 30, 2014 and 2013</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2014 and 2013</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
<u>Item 4.</u>	
<u>Controls and Procedures</u>	42
<b><u>PART II.</u></b>	
<b><u>OTHER INFORMATION</u></b>	<b>43</b>
<u>Item 1.</u>	
<u>Legal Proceedings</u>	43
<u>Item 1A.</u>	
<u>Risk Factors</u>	43
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 6.</u>	
<u>Exhibits</u>	44
<b><u>SIGNATURES</u></b>	<b>45</b>

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

	September 30, 2014 (in 000s, except par value amount)	June 30, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 74,417	\$ 77,439
Restricted cash	14,069	17,179
Accounts and notes receivable, net of allowances for doubtful accounts of \$16,541 and \$14,806	289,851	314,119
Inventories	96,938	82,289
Prepaid and refundable income tax	19,105	21,938
Deferred income tax assets	37,504	36,934
Deferred cost of revenue	12,541	15,723
Prepaid assets	23,568	21,800
Other current assets	14,885	6,013
Total current assets	582,878	593,434
Restricted long-term cash and investments	19,247	93,977
Long-term accounts and notes receivables, net of allowances for doubtful accounts of \$909 and \$929	43,579	50,329
Property, plant and equipment, net of accumulated depreciation of \$76,996 and \$74,158	70,104	70,218
Leased gaming equipment, net of accumulated depreciation of \$240,447 and \$248,086	121,980	131,504
Goodwill	1,016,675	1,003,377
Intangible assets, net	515,942	508,245
Deferred income tax assets	2,072	3,892
Income tax receivable		457
Deferred cost of revenue	2,716	6,989
Other assets, net	59,135	56,389
Total assets	\$ 2,434,328	\$ 2,518,811
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 41,555	\$ 37,651
Accrued and other liabilities	95,285	115,010
Jackpot liabilities	10,579	11,726
Deferred revenue	37,141	43,161
Income tax payable	8,475	5,554
Current maturities of long-term debt	38,399	38,465
Total current liabilities	231,434	251,567
Long-term debt, net of current maturities	1,842,671	1,886,953
Deferred revenue	6,404	20,209

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

Other income tax liability	10,218	10,355
Deferred income tax liabilities	113,700	110,899
Other liabilities	40,467	32,907
Total liabilities	2,244,894	2,312,890
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, \$.10 par value; 100,000 shares authorized; 66,145 and 66,047 shares issued and 38,345 and 38,694 outstanding	6,607	6,595
Treasury stock at cost, 27,800 and 27,353 shares	(1,161,893)	(1,134,407)
Additional paid-in capital	604,188	593,427
Accumulated other comprehensive loss	(34,241)	(5,423)
Retained earnings	773,784	744,939
Total Bally Technologies, Inc. stockholders' equity	188,445	205,131
Noncontrolling interests	989	790
Total stockholders' equity	189,434	205,921
Total liabilities and stockholders' equity	\$ 2,434,328	\$ 2,518,811

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<b>Three Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in 000s, except per share amounts)</b>	
<b>Revenues:</b>		
Gaming equipment and systems	\$ 186,228	\$ 147,387
Product lease, operation and royalty	134,577	101,902
	320,805	249,289
<b>Costs and expenses:</b>		
Cost of gaming equipment and systems (1)	71,257	54,506
Cost of product lease, operation and royalty(1)	37,718	30,619
Selling, general and administrative	93,170	72,427
Research and development costs	34,425	29,504
Depreciation and amortization	21,793	5,265
	258,363	192,321
Operating income	62,442	56,968
<b>Other income (expense):</b>		
Interest income	1,588	2,481
Interest expense	(18,338)	(4,427)
Other, net	(400)	(900)
Income from operations before income taxes	45,292	54,122
Income tax expense	(16,248)	(16,172)
Net income	29,044	37,950
Less net income attributable to noncontrolling interests	199	166
Net income attributable to Bally Technologies, Inc.	\$ 28,845	\$ 37,784
<b>Basic and diluted earnings per share attributable to Bally Technologies, Inc.:</b>		
Basic earnings per share	\$ 0.76	\$ 0.98
Diluted earnings per share	\$ 0.75	\$ 0.97
<b>Weighted average shares outstanding:</b>		
Basic	37,796	38,381
Diluted	38,266	39,091

(1) Cost of gaming equipment and systems and product lease, operation and royalty exclude amortization related to intangible assets 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**

	<b>Three Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in 000s)</b>	
Net Income	\$ 29,044	\$ 37,950
Other comprehensive income (loss):		
Foreign currency translation adjustment before income taxes	(30,721)	(235)
Income tax benefit	425	
Foreign currency translation adjustment	(30,296)	(235)
Unrealized gain (loss) on derivative financial instruments before income taxes	2,273	299
Income tax (expense) benefit	(795)	(105)
Unrealized gain (loss) on derivative financial instruments	1,478	194
Total other comprehensive income (loss), net of income taxes	(28,818)	(41)
Comprehensive income	226	37,909
Less: comprehensive income attributable to noncontrolling interests	199	166
Comprehensive income attributable to Bally Technologies, Inc.	\$ 27	\$ 37,743

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 THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**

	Common Stock Shares	Common Stock Dollars	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss) ( OCI ) (in 000 s)	Retained Earnings	Noncontrolling Interests	Total Stockholders Equity
Balances at June 30, 2013	65,318	\$ 6,523	\$ (1,058,381)	\$ 535,759	\$ (10,692)	\$ 646,339	\$ (376)	\$ 119,172
Net income						37,784	166	37,950
Foreign currency translation adjustment					(235)			(235)
Unrealized loss on derivative financial instruments, net of tax					194			194
Total comprehensive income								\$ 37,909
Issuance and receipt of restricted stock, ESPP shares, stock options and related tax and tax benefit	154	16	(1,068)	7,491				6,439
Settlement of accelerated share repurchase forward contract			(22,500)	22,500				
Share-based compensation				3,462				3,462
Balances at September 30, 2013	65,472	\$ 6,539	\$ (1,081,949)	\$ 569,212	\$ (10,733)	\$ 684,123	\$ (210)	\$ 166,982
Balances at June 30, 2014	66,047	\$ 6,595	\$ (1,134,407)	\$ 593,427	\$ (5,423)	\$ 744,939	\$ 790	\$ 205,921
Net income						28,845	199	29,044
Foreign currency translation adjustment, net of tax					(30,296)			(30,296)
Unrealized loss on derivative financial instruments, net of tax					1,478			1,478
Total comprehensive income								\$ 226
Issuance and receipt of restricted stock, ESPP shares, stock options and related tax and tax benefit	98	12	(3,874)	6,881				3,019

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

Purchase of common stock for treasury						(23,612)									(23,612)
Share-based compensation															3,880
Balances at September 30, 2014	66,145	\$	6,607	\$	(1,161,893)	\$	604,188	\$	(34,241)	\$	773,784	\$	989	\$	189,434

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2014	2013
	(in 000s)	
Cash flows from operating activities:		
Net income	\$ 29,044	\$ 37,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,681	22,051
Amortization of deferred debt issuance costs	1,522	517
Share-based compensation	3,880	3,462
Provision for doubtful accounts	4,040	661
Inventory write-downs	206	1,530
Income tax benefit	(5)	(3,169)
Excess tax benefit of stock option exercises	(2,852)	(1,852)
Other	84	46
Change in operating assets and liabilities:		
Accounts and notes receivable	34,738	(8,495)
Inventories	(22,188)	(9,962)
Prepaid and refundable income tax and income tax payable	9,164	12,059
Other current assets and other assets	(13,185)	(2,614)
Accounts payable	4,007	8,075
Accrued liabilities and jackpot liabilities	(27,518)	(4,934)
Deferred revenue and deferred cost of revenue	(11,670)	(748)
Net cash provided by operating activities	50,948	54,577
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(51,318)	
Capital expenditures	(5,927)	(5,232)
Restricted cash and investments	77,907	(648)
Financing provided to customer	(5,000)	
Payments received from development financing	1,521	1,404
Additions to other long-term assets	(3,189)	(745)
Net cash provided by (used in) investing activities	13,994	(5,221)
Cash flows from financing activities:		
Proceeds from revolving credit facility	5,000	
Payments on revolving credit facility	(40,000)	(45,000)
Payments on long-term debt and capital leases	(9,635)	(5,658)
Capitalized debt issuance costs		(1,350)
Acquisition-related contingent consideration	(200)	(131)
Purchase of treasury stock	(27,486)	(1,068)
Excess tax benefit of stock option exercises	2,852	1,852
Proceeds from exercise of stock options and employee stock purchases	4,065	5,622
Net cash used in financing activities	(65,404)	(45,733)
Effect of exchange rate changes on cash	(2,560)	(627)
Cash and cash equivalents:		
Increase (decrease) for period	(3,022)	2,996
Balance, beginning of period	77,439	63,220
Balance, end of period	\$ 74,417	\$ 66,216

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:

	<b>Three Months Ended September 30,</b>		
	<b>2014</b>	<b>(in 000s)</b>	<b>2013</b>
Cash paid for interest	\$	16,355	\$ 4,386
Cash paid for income taxes, net of refunds		7,015	7,196
Non-cash investing and financing transactions:			
Transfer of inventory to leased gaming equipment (1)	\$	14,386	\$ 13,172
Reclassify leased gaming equipment to inventory (1)		5,326	3,567

(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 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**

References to we, our, us, Bally or the Company refer to Bally Technologies, Inc. and its consolidated subsidiaries.

Bally, a Nevada corporation, is a diversified global gaming supplier that designs, manufactures, operates and distributes electronic gaming machines ( EGMs ), networked and casino-management systems and interactive applications, and table game products that drive revenue and provide operating efficiencies for gaming operators. The Company supplies innovative hardware and games, including spinning-reel and video gaming devices, specialty gaming devices, automatic card shufflers, proprietary table game content and wide-area progressive systems. The Company's casino-management technology solutions allow its customers to more effectively manage their operations using our wide range of marketing, data management and analysis, accounting, player tracking, security and other software applications and tools. Under its business-to-business model, the Company supports customers that include traditional land-based, riverboat, and Native American casinos, interactive, video lottery and central determination markets.

On August 1, 2014, we entered into an Agreement and Plan of Merger (the Merger Agreement ) by and among the Company, Scientific Games Corporation ( Scientific Games ), Scientific Games Nevada, Inc., a wholly owned subsidiary of Scientific Games ( Merger Sub ), and Scientific Games International, Inc., providing for the merger of Merger Sub with and into the Company (the Merger ), with the Company surviving the Merger as a wholly owned subsidiary of Scientific Games. Upon consummation of the Merger, on the terms and subject to the conditions set forth in the Merger Agreement, each issued and outstanding share of Bally common stock will be automatically cancelled and converted into the right to receive \$83.30 in cash, without interest. Consummation of the Merger is subject to customary conditions, including without limitation (i) the approval of the Merger Agreement by the Company's stockholders, (ii) the expiration or early termination of the waiting period applicable to the consummation of the Merger under the HSR Act and (iii) the receipt of specified licenses, permits, and other approvals relating to Bally's gaming operations. On August 20, 2014, the Company received notice of early termination of the waiting period under the HSR Act, and accordingly such condition has been satisfied. The Company will hold a special meeting of its stockholders on November 18, 2014 to vote on the approval of the Merger Agreement and certain other related matters described in the definitive proxy statement filed by the Company on October 20, 2014. The Merger will be financed with debt and cash on hand and Scientific Games has obtained committed debt financing for the transaction, which is not subject to a financing contingency. The Merger is currently expected to be completed prior to the end of calendar year 2014.

*Principles of presentation and consolidation*

The accompanying unaudited condensed consolidated financial statements include the accounts of Bally Technologies, Inc., and its subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) 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

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

Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014. References to specific U.S. GAAP within this report cite topics within the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ).

All material intercompany accounts and transactions have been eliminated in consolidation.

### *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. Future events and their effects cannot be predicted with certainty; accordingly, accounting estimates require the exercise of judgment. Actual results could differ from those estimates.

Table of Contents

*Business Combinations*

The Company applies the provisions of ASC 805, *Business Combinations*, in the accounting for acquisitions. It requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed, at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. Significant estimates and assumptions are required to value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable. These estimates are inherently uncertain and subject to refinement and typically include the calculation of an appropriate discount rate and projection of the cash flows associated with each acquired asset. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. In addition, deferred tax assets, deferred tax liabilities, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. The Company reevaluates these items quarterly based upon facts and circumstances that existed as of the acquisition date and any adjustments to its preliminary estimates are recorded to goodwill if identified within the measurement period. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the unaudited condensed consolidated statements of operations.

*Restructuring and acquisition-related costs*

The Company recognizes a liability for restructuring and acquisition-related costs when the liability is incurred. Restructuring accruals are based upon management estimates at the time they are recorded. These estimates can change depending upon changes in facts and circumstances subsequent to the date the original liability was recorded. The components of restructuring charges relate primarily to executive transition costs, inventory and fixed assets write-offs and non-cancelable lease costs related to excess facilities. There were no changes in the estimated original liability and restructuring liabilities were immaterial as of September 30, 2014. Severance-related charges were accrued when it is determined that a liability has been incurred, which is generally when individuals have been notified of their termination dates and expected severance payments. Acquisition-related costs included financial advisory, legal and debt fees; accounting, consulting, and professional fees associated with due diligence, valuation and integration; severance; and adjustments related to step-up in inventory basis and amortization of purchased intangible assets.

*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.

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;



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

- 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.

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. Cash equivalents and investment securities to fund jackpot liabilities have Level 1 inputs with values based on quoted market prices. Accounts and notes receivable and jackpot liabilities have Level 3 inputs and were valued using Discounted Cash Flows ( DCF ) incorporating expected future payment timing and current borrowing rates. Long-term debt has Level 2 inputs and was valued using DCF incorporating expected future payment timing and current borrowing rates.

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 enters 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.

Table of Contents

As of September 30, 2014 and June 30, 2014, the following foreign currency contracts were outstanding:

- euro forward contracts for a total of \$55.9 million and \$60.0 million, respectively, or the notional equivalent of 44.0 million were outstanding;
- pound sterling forward contracts for a total of \$8.9 million and \$9.4 million, respectively, or the equivalent of £5.5 million were outstanding;
- Canadian dollar forward contracts for a total of \$9.0 million and \$12.6 million, respectively, or the equivalent of C\$10.0 million and C\$13.5 million, respectively, were outstanding; and
- Australian dollar forward contracts for a total of \$41.9 million and \$44.8 million, respectively, or the equivalent of A\$49.0 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 interest rate derivatives are accounted for as cash flow hedges. The foreign currency derivatives are not designated as accounting hedges and thus the gains or losses resulting from changes in the fair value of such forward contracts 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).

Acquisition contingent consideration payable related to the earn-out payment for Dragonplay is dependent on exceeding certain earnings performance measurements (see Note 2 to the unaudited condensed consolidated financial statements, *Business Combinations*). The liability was valued with a Monte Carlo simulation model using expected performance of Dragonplay adjusted for projected volatility of 50%. Changes in the expected performance and volatility are the most significant assumptions and would result in directionally similar changes in the fair value. The fair value of the contingent consideration payable did not change during the three months ended September 30, 2014.

The Company's derivative financial instruments and acquisition contingent consideration payable 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
<b>As of September 30, 2014:</b>			
Assets:			
Other current assets:			
Foreign currency derivative financial instrument	\$	\$ 5,200	\$
Other assets, net:			
Foreign currency derivative financial instrument	\$	\$ 1,964	\$
Liabilities:			
Accrued and other liabilities:			
Interest rate derivative financial instrument	\$	\$ 4,033	\$
Other liabilities:			
Interest rate derivative financial instrument	\$	\$ 10,568	\$
Acquisition contingent consideration payable	\$	\$	\$ 10,000

**As of June 30, 2014:**

## Assets:

## Other current assets:

Foreign currency derivative financial instrument	\$	\$	111	\$
--------------------------------------------------	----	----	-----	----

## Liabilities:

## Accrued and other liabilities:

Foreign currency derivative financial instrument	\$	\$	498	\$
--------------------------------------------------	----	----	-----	----

Interest rate derivative financial instrument	\$	\$	4,334	\$
-----------------------------------------------	----	----	-------	----

## Other liabilities:

Interest rate derivative financial instrument	\$	\$	12,540	\$
-----------------------------------------------	----	----	--------	----

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 6 to the unaudited condensed consolidated financial statements, *Long-Term Debt*.

Table of Contents*Accounting for Derivative Instruments and Hedging Activity*

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. The interest rate derivative instruments meet these requirements and are accounted for as cash flow hedges.

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

Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) (in 000s)	Location of Loss Recognized in Income on Derivative (Ineffective Portion)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion)
For the three months ended September 30, 2014:					
Interest rate swap agreement	\$ 1,087	Interest expense	\$ (1,186)	Interest expense	\$
For the three months ended September 30, 2013:					
Interest rate swap agreement	\$ (985)	Interest expense	\$ (1,284)	Interest expense	\$

Non-Designated Derivative	Amount of Gain (Loss) Recognized in Other Income (Expense) (in 000s)	
	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Foreign Currency Forward Contracts	\$ 7,715	\$ (1,429)

The pre-tax changes in other comprehensive income are as follows:

Interest Rate Derivative Financial Instrument OCI Rollforward:	Amount (in 000s)	
	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Beginning balance	\$ (16,874)	\$ (9,616)
Amount recognized in OCI on derivative	1,087	(985)
Amount reclassified from OCI into income	1,186	1,284
Unrealized loss on derivative financial instruments	\$ (14,601)	\$ (9,317)

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

Table of Contents

The following tables reconcile the net fair values of assets and liabilities, subject to offsetting arrangements that are recorded in the unaudited condensed consolidated balance sheets:

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Unaudited Condensed Consolidated Balance Sheets	Offsetting of Derivative Assets			Net Amount
			Net Amounts of Assets Presented in the Unaudited Condensed Consolidated Balance Sheets (in 000s)	Financial Instruments	Gross Amounts Not Offset in the Unaudited Condensed Consolidated Balance Sheets Cash Collateral Pledged	
As of September 30, 2014:						
Foreign currency derivative financial instruments	\$ 7,164	\$	\$ 7,164	\$	\$	\$ 7,164
As of June 30, 2014:						
Foreign currency derivative financial instrument	\$ 111	\$	\$ 111	\$ (111)	\$	\$

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Unaudited Condensed Consolidated Balance Sheets	Offsetting of Derivative Liabilities			Net Amount
			Net Amounts of Liabilities Presented in the Unaudited Condensed Consolidated Balance Sheets (in 000s)	Financial Instruments	Gross Amounts Not Offset in the Unaudited Condensed Consolidated Balance Sheets Cash Collateral Pledged	
As of September 30, 2014:						
Interest rate derivative financial instrument	\$ (14,601)	\$	\$ (14,601)	\$	\$	\$ (14,601)
As of June 30, 2014:						
Foreign currency derivative financial instruments	\$ (498)	\$	\$ (498)	\$ 111	\$	\$ (387)
Interest rate derivative financial instrument	\$ (16,874)	\$	\$ (16,874)	\$	\$	\$ (16,874)

*Accounts and notes receivable and allowances for doubtful accounts*

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 generally up to three years, with interest generally at market rates.

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 to establish an allowance for doubtful accounts. Receivables are written off only after the Company has exhausted all reasonable collection efforts.

Table of Contents*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:

	September 30, 2014	(in 000s)	June 30, 2014
Raw materials	\$ 63,798		\$ 56,940
Work-in-process	1,682		232
Finished goods	31,458		25,117
Total	\$ 96,938		\$ 82,289

The Company regularly reviews inventory quantities and updates estimates for the net realizable value of inventories to estimate potential excess or obsolete inventory. Our process includes examining the carrying values of new and used gaming devices, parts and ancillary equipment in comparison to the current fair market values for such equipment (less costs to sell or dispose). The determination of obsolete or excess inventory requires us to estimate the future demand for our products within specific time horizons, generally one year or less. Additional factors involved in this analysis include the overall levels of our inventories, the costs required to sell the products, including refurbishment costs, importation costs for international shipments, and the overall projected demand for products once the next generation of products are scheduled for release. Demand for parts inventory is also subject to technical obsolescence.

The Company recorded inventory write-downs totaling \$0.2 million and \$1.5 million during the three months ended September 30, 2014 and 2013, respectively.

*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; and

- Delivery has occurred.

Revenues are reported net of incentive rebates, discounts, sales taxes and all other items 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 when the Company has determined that collectability is reasonably assured and the fee is considered fixed and determinable.

Products placed with customers on a trial basis are recorded as revenue once the trial period has ended, the customer has accepted the games, and all other revenue recognition criteria have been satisfied. The Company's standard sales contracts do not contain right of return provisions and the Company has not experienced significant sales returns. Therefore, the Company has not recorded an allowance for sales returns. Amounts billed to customers prior to completing the earnings process are deferred until the revenue recognition criteria are satisfied.

Product Lease, Operation and Royalty Revenue. Product lease, operation and royalty revenue is earned from the renting or leasing of tangible products and the licensing of intangible products. Product lease and operation revenue is derived from gaming operations, including the operation of linked progressive systems, the rental of EGMs, game content and the related systems placed with customers, and the lease of table game products, including automatic card shufflers, deck checkers and roulette chip sorters. Product royalty revenue is derived from gaming operations and table game products, including the licensing of proprietary table game content. Product lease and operation revenue is earned and recognized based on a share of money wagered, a share of the net winnings, or on a fixed daily or monthly rate. The fee entitles the customer to full use of the gaming equipment 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 fee and all of the products and services are delivered simultaneously. Product royalty revenue from table game products, including the licensing of proprietary table game content, is earned based on a fixed monthly rate. Product lease, operation and royalty 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 devices.



Table of Contents

Gaming Equipment and Systems Revenue

Gaming Equipment Revenue. Gaming Equipment revenue is generated from the sale of EGMs, including up-front licensing rights to game content, table game products, including the sale of lifetime licenses to the Company's proprietary table games, and parts and other ancillary equipment. Arrangements may also include sales of game content conversion kits that enable customers to replace game content without purchasing a new EGM. The recognition of revenue from product sales occurs as title and risk of loss have passed to the customer and all other revenue recognition criteria have been satisfied. Revenue is recorded for the sale of lifetime licenses, under which the Company has no continuing obligation, on the effective date of the license.

As the combination of game content software and the tangible EGMs and table game products function together to deliver the product's essential functionality, revenue from the sale of EGMs and table game products 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.

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

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

The Company licenses casino-management 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 provided all revenue recognition criteria have been satisfied. 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 products include 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 satisfied. 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 on a straight-line basis over the term of the support period which is generally twelve 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 twelve

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

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. For example, customers may enter into arrangements with the Company for the implementation of casino-management systems, which will generally include a combination of casino-management 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 content 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 stand-alone basis if they are sold separately by any vendor or the customer could resell the delivered items on a stand-alone 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 non-software 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.

Table of Contents

In allocating arrangement fees under the relative selling price hierarchy, the Company uses VSOE for all products that 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 been developed. Following these guidelines, the Company uses either VSOE or ESP for EGMs, table game products, systems-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 or substantive PCS contract renewals and whether the prices or PCS renewal rates 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 similar arrangements.

*Recently adopted accounting pronouncements*

On July 1, 2014, the Company adopted new accounting guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The new guidance was applied prospectively and had no impact on the Company's consolidated results of operations, financial condition and cash flows.

On July 1, 2014, the Company adopted new accounting guidance requiring the release of cumulative translation adjustment into net income when an entity either sells a part or all of its investment in or no longer holds a controlling financial interest in a foreign entity. The new guidance was applied prospectively and had no impact on the Company's consolidated results of operations, financial condition and cash flows.

On July 1, 2014, the Company adopted new accounting guidance that changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale. The guidance had no impact on the Company's consolidated results of operations, financial condition and cash flows because there were no disposals of a component since July 1, 2014.

*Recently issued accounting pronouncements not yet adopted*

In May 2014, the FASB issued a comprehensive new revenue recognition standard that will supersede virtually all existing revenue guidance. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation, and recognizing revenue in line with the pattern of transfer. The standard also requires extensive additional disclosures to provide greater insight into revenues recognized and deferred, including quantitative and qualitative information about significant judgments and changes in those judgments made to determine the timing and amount of revenues recognized.

The standard will be effective for the Company in its fiscal year 2018 first quarter. The standard allows for adoption under either full retrospective in which prior periods presented are recast under the new guidance or modified retrospective in which it would be applied only to the most current period presented along with a cumulative-effect adjustment at the date of adoption. The Company is currently evaluating the impact that this standard will have on our financial statements.

Table of Contents

In August 2014 the FASB issued new guidance regarding the Company's responsibility for disclosure of uncertainties about an entity's ability to continue as a going concern. The provisions state that the Company should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued. If conditions or events are identified, such should be disclosed with the Company's plans to respond to the conditions or events. The standard will be effective for the Company in its fiscal year 2017 and is not expected to have a significant impact the Company's financial statements or disclosures.

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.

## 2. BUSINESS COMBINATIONS

### *SHFL entertainment, Inc.*

On November 25, 2013, the Company completed the acquisition of 100% of the outstanding common stock of SHFL entertainment, Inc. ( SHFL ) for total purchase consideration of \$1.38 billion (the Acquisition ). The Acquisition was funded primarily from proceeds of a new Term Loan B and borrowings from the Company's existing Revolving Credit Facility (see Note 6 to the unaudited condensed consolidated financial statements, *Long-Term Debt*). The Acquisition has provided the Company with a more diversified suite of products and has increased its product development talent. Additionally, the Acquisition has achieved synergies, including, but not limited to, cost savings from economies of scale, more efficient supply chain and distribution channels and the acceleration of revenue through greater access to international markets.

The total purchase consideration for SHFL was as follows:

	(in 000s)
Total purchase price for SHFL common stock (56,626 shares at \$23.25 per share)	\$ 1,316,554
Payments in respect of SHFL stock options, restricted shares, restricted share units and restricted share performance units	46,099
Repayments of SHFL debt and other obligations	19,752
Total purchase consideration	\$ 1,382,405

The Acquisition was accounted for using the acquisition method of accounting, which requires, among other things, the assets acquired and liabilities assumed be recognized at their respective fair values as of the acquisition date. The excess of the purchase price over those fair values was recorded as goodwill, none of which is deductible for tax purposes. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of SHFL.

The information below reflects preliminary allocation of the purchase price based on assumptions and estimates related to fair value that are subject to change as additional information may become available during the respective measurement periods (up to one year from the

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

acquisition date). In particular, the Company is still evaluating the fair value of certain tangible and intangible assets and finalizing the accounting for income taxes.

	(in 000s)
Current assets	\$ 172,217
Property, plant and equipment	31,409
Leased gaming equipment	34,647
Goodwill	824,185
Purchased intangible assets	510,627
Other assets	10,662
Total assets	1,583,747
Current liabilities	37,977
Deferred income tax liabilities	160,309
Other long-term liabilities	3,056
Total liabilities	201,342
Net assets acquired	\$ 1,382,405

Table of Contents

Receivables acquired of \$63.9 million (including approximately \$16.1 million of trade receivables with contract terms greater than one year and \$4.3 million of lease receivables) were valued at their fair value utilizing Level 3 inputs, which fair value approximates the gross contractual amounts receivable.

Inventory acquired totaling \$41.0 million was valued at fair value utilizing Level 2 inputs based on model-based valuations for which all significant inputs and value drivers are observable.

The following table summarizes acquired tangible and intangible assets. These values are preliminary and may change as the purchase price allocation is finalized.

	Useful Life (Years)	Estimated Fair Value (in 000s)
<b>Property, plant and equipment</b>		
Land	Indefinite	\$ 4,673
Buildings and leasehold improvements	5 - 40	17,750
Furniture, fixtures and equipment	3 - 7	8,986
Property, plant and equipment		\$ 31,409
<b>Leased gaming equipment</b>		
Leased gaming equipment	3 - 5	\$ 34,647

The fair value of property, plant and equipment and leased gaming equipment was determined using market data for similar assets (Level 2).

	Useful Life (Years)	Estimated Fair Value (in 000s)
<b>Purchased intangible assets</b>		
Computer Software	2 - 3	\$ 2,669
License Rights	12	1,958
Core technology and content(1)	4 - 18	456,000
Customer relationships	7	43,000
Trademark	5	7,000
Intangible assets		\$ 510,627

- (1) Includes \$46 million of in-process research and development ( IPR&D ) assets that are not yet subject to amortization until they reach commercial feasibility.

Included in core technology and content above, EGMs and table game products content and IPR&D assets were valued using the multi-period excess earnings method, a form of the income approach (Level 3). This method calculates the value based on the risk-adjusted present value of the cash flows specific to the content and products, allowing for a reasonable return. The discount rates utilized to estimate the fair value of these intangible assets ranged from 8.5% to 11.0%.

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

Trademark and core technology for the EGM and Electronic Table System ( ETS ) operating systems, and table game products were valued using the relief-from-royalty method, a form of the income approach (Level 3). The relief-from-royalty method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be payable as royalties or license fees on revenues earned through the use of the asset. The royalty rate is based on an analysis of empirical, market-derived royalty rate for similar assets. The royalty rates and discount rates utilized to estimate the fair value of these intangible assets ranged from 3% to 15%, and 9.5% to 15%, respectively.

The customer relationships were valued using a with-or-without method, a form of the income approach (Level 3). In this method, fair value is measured by the lost profits associated with the period of time necessary to reacquire the customers. The method involves a comparison of the cash flows assuming as if the customer relationships were in place versus as if the customer relationships were to be created from scratch . Cash flows attributable to the customer relationships were discounted at a rate of 10.5%.



Table of Contents

The following table includes unaudited pro forma consolidated financial information assuming the Acquisition occurred as of July 1, 2012. The pro forma financial information is for information purposes only and does not necessarily represent the results that may occur in the future. The pro forma amounts include the historical operating results of the Company and SHFL prior to the Acquisition, with adjustments directly attributable to the Acquisition. The pro forma results include increases to depreciation and amortization expense based on the purchased intangible assets and the step-up in basis associated with tangible assets acquired, increases to cost of gaming equipment and systems related to the step-up in basis associated with inventory as well as increases to interest expense, related to debt issued to fund the Acquisition.

Also reflected in the quarter ended September 30, 2013 are adjustments for the removal of acquisition-related costs of \$11.2 million. All adjustments utilize an effective tax rate of 35.5%.

	<b>Three Months Ended September 30, 2013</b>	
	<b>(in 000s, except per share amounts)</b>	
Revenues	\$	323,059
Net income attributable to Bally Technologies, Inc.	\$	33,766
Basic earnings per share	\$	0.88
Diluted earnings per share	\$	0.86

***Dragonplay, Ltd.***

On July 1, 2014, the Company completed the acquisition of 100% of Dragonplay Ltd. ( Dragonplay ), an online social casino company headquartered in Tel Aviv, Israel. The Company funded the transaction from cash on hand and proceeds from the Revolving Credit Facility. This acquisition establishes the Company's position in social gaming and provides added distribution channels for the Company's slot and table game content.

Total initial consideration included \$51.3 million cash plus \$34.9 million for net working capital. Additional earn-out consideration and employee retention payments, not to exceed \$48.7 million, may be due over the following 18 months subject to achievement of certain financial performance targets.

The Company utilized the Monte Carlo simulation model to estimate the fair value of the earn-out consideration of \$10.0 million.

The total purchase consideration for Dragonplay was preliminarily allocated as follows:

(in 000s)

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

Tangible assets	\$	37,792
Goodwill (non-deductible for tax purposes)		33,062
Purchased intangible assets		34,100
Liabilities		(8,730)
Net assets acquired	\$	96,224

Goodwill pertains to Dragonplay assembled workforce. Intangible assets relate primarily to core technology and content that will be amortized over 5 years.

The financial results for Dragonplay have been included in our unaudited condensed consolidated financial statements since the date of acquisition and acquisition-related expenses recorded in selling, general and administrative expense were \$0.4 million for the three months ended September 30, 2014. Pro forma results of operations have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

Table of Contents**3. 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:

	<b>Three Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in 000s, except per share amounts)</b>	
Net income attributable to Bally Technologies, Inc.	\$ 28,845	\$ 37,784
Weighted average shares outstanding	37,796	38,381
Dilutive effect of:		
Stock options, Restricted Stock Units ( RSU ) and restricted stock	470	710
Weighted average diluted shares outstanding	38,266	39,091
Basic and diluted earnings per share attributable to Bally Technologies, Inc.		
Basic earnings per share	\$ 0.76	\$ 0.98
Diluted earnings per share	\$ 0.75	\$ 0.97

**4. ACCOUNTS AND NOTES RECEIVABLE**

The Company has one portfolio segment, the gaming 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 gaming 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's accounts and notes receivable were as follows:

	<b>Accounts and Notes Receivable as of September 30, 2014</b>			<b>Accounts and Notes Receivable as of June 30, 2014</b>		
	<b>Ending Balance</b>	<b>Ending Balance Individually Evaluated for Impairment</b>	<b>Ending Balance Collectively Evaluated for Impairment</b>	<b>Ending Balance</b>	<b>Ending Balance Individually Evaluated for Impairment</b>	<b>Ending Balance Collectively Evaluated for Impairment</b>
	<b>(in 000s)</b>					
Contract term less than one year:						

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

Trade and other receivables, current	\$ 217,041	\$ 12,049	\$ 204,992	\$ 224,580	\$ 8,963	\$ 215,617
Contract term greater than one year:						
Trade receivables, current	77,290	58,141	19,149	90,663	72,685	17,978
Trade receivables, noncurrent	28,542	11,547	16,995	26,688	9,469	17,219
	105,832	69,688	36,144	117,351	82,154	35,197
Lease receivables, current	5,469	5,469		7,965	7,965	
Lease receivables, noncurrent	2,321	2,321		12,403	12,403	
	7,790	7,790		20,368	20,368	
Notes receivable, current	6,592	6,592		5,717	5,717	
Notes receivable, noncurrent	13,625	13,625		12,167	12,167	
	20,217	20,217		17,884	17,884	
Total current	306,392	82,251	224,141	328,925	95,330	233,595
Total noncurrent	44,488	27,493	16,995	51,258	34,039	17,219
Total	\$ 350,880	\$ 109,744	\$ 241,136	\$ 380,183	\$ 129,369	\$ 250,814

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

Table of Contents

The activity related to the allowance for doubtful accounts for the quarter ended September 30, 2014 is summarized below:

	Beginning Balance as of June 30, 2014	Allowance for Doubtful Accounts			Ending Balance as of September 30, 2014	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
		Charge- offs	Recoveries	Provision (in 000s)			
Contract term less than one year:							
Trade and other receivables, current	\$ (4,971)	\$ 314	\$	\$ (1,926)	\$ (6,583)	\$ (3,993)	\$ (2,590)
Contract term greater than one year:							
Trade receivables, current	(9,835)	544	1,264	(1,931)	(9,958)	(8,809)	(1,149)
Trade receivables, noncurrent	(929)	84	119	(183)	(909)		(909)
	(10,764)	628	1,383	(2,114)	(10,867)	(8,809)	(2,058)
Lease receivables, current							
Lease receivables, noncurrent							
Notes receivable, current							
Notes receivable, noncurrent							
Total current	(14,806)	858	1,264	(3,857)	(16,541)	(12,802)	(3,739)
Total noncurrent	(929)	84	119	(183)	(909)		(909)
Total	\$ (15,735)	\$ 942	\$ 1,383	\$ (4,040)	\$ (17,450)	\$ (12,802)	\$ (4,648)

The activity related to the allowance for doubtful accounts for the quarter ended September 30, 2013 is summarized below:

	Beginning Balance as of June 30, 2013	Allowance for Doubtful Accounts			Ending Balance as of September 30, 2013	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
		Charge- offs	Recoveries	Provision (in 000s)			
Contract term less than one year:							
Trade and other receivables, current	\$ (4,505)	\$ 24	\$	\$ 321	\$ (4,160)	\$ (1,224)	\$ (2,936)

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

Contract term greater than one year:

Trade receivables, current	(10,308)	3	560	(367)	(10,112)	(7,712)	(2,400)
Trade receivables, noncurrent	(1,764)	10		(615)	(2,369)	(655)	(1,714)
	(12,072)	13	560	(982)	(12,481)	(8,367)	(4,114)

Lease receivables, current

Lease receivables, noncurrent

Notes receivable, current

Notes receivable, noncurrent

Total current	(14,813)	27	560	(46)	(14,272)	(8,936)	(5,336)
Total noncurrent	(1,764)	10		(615)	(2,369)	(655)	(1,714)
Total	\$ (16,577)	\$ 37	\$ 560	\$ (661)	\$ (16,641)	\$ (9,591)	\$ (7,050)

Table of Contents

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 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 pursuant to 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 September 30, 2014:

	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due	Current (in 000s)	Total Receivable	Recorded Investment in Receivables on Nonaccrual Status	Recorded Investment 90 Days and Accruing
Trade receivables	\$ 5,420	\$ 2,263	\$ 7,566	\$ 15,249	\$ 90,583	\$ 105,832	\$ 15,249	\$
Lease receivables					7,790	7,790		
Notes receivable					20,217	20,217		
Total	\$ 5,420	\$ 2,263	\$ 7,566	\$ 15,249	\$ 118,590	\$ 133,839	\$ 15,249	\$

The following summarizes the aging of past due receivables, excluding trade accounts receivable with a contract term less than one year, as of June 30, 2014:

	1 to 90 Days Past Due	91 to 180 Days Past Due	181 + Days Past Due	Total Past Due	Current (in 000s)	Total Receivable	Recorded Investment in Receivables on Nonaccrual Status	Recorded Investment 90 Days and Accruing
Trade receivables	\$ 7,862	\$ 2,178	\$ 8,102	\$ 18,142	\$ 99,209	\$ 117,351	\$ 18,142	\$
Lease receivables					20,368	20,368		
Notes receivable					17,884	17,884		
Total	\$ 7,862	\$ 2,178	\$ 8,102	\$ 18,142	\$ 137,461	\$ 155,603	\$ 18,142	\$

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

The aging of customer invoices and note balances are based on contractually agreed upon payment terms, which in certain rare circumstances have been modified from the original financing terms. The modification 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 total trade, lease and notes receivable balances.

The Company has provided development financing to certain customers in the form of notes receivable. There were no significant modifications of notes receivable during the periods presented.

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. There were no recorded investments in impaired loans as of September 30, 2014 and June 30, 2014.

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 September 30, 2014 and June 30, 2014, the fair value of the accounts and notes receivable, net, approximated the carrying value.



Table of Contents**5. GOODWILL AND INTANGIBLE ASSETS***Goodwill*

The changes in the carrying amount of goodwill for the three months ended September 30, 2014 are as follows:

	(in 000s)
Balance at June 30, 2014	\$ 1,003,377
Acquisition of Dragonplay	33,062
Foreign currency translation adjustment	(19,764)
Balance at September 30, 2014	\$ 1,016,675

*Intangible Assets*

	Useful Life (Years)	September 30, 2014			June 30, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount (dollars in 000s)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Computer software	2 - 5	\$ 54,848	\$ (40,315)	\$ 14,533	\$ 51,392	\$ (39,229)	\$ 12,163
License rights	3 - 13	16,006	(11,526)	4,480	16,108	(10,921)	5,187
Trademarks	5 - 10	12,006	(3,584)	8,422	9,430	(3,104)	6,326
Core technology and content	4 - 18(1)	504,297	(63,362)	440,935	487,473	(51,790)	435,683
Customer relationships	7	43,410	(5,429)	37,981	43,572	(3,737)	39,835
Contracts	2 - 10	10,943	(10,686)	257	10,943	(10,651)	292
Other intangibles	3 - 5	2,268	(434)	1,834	2,187	(928)	1,259
Total finite lived intangible assets		\$ 643,778	\$ (135,336)	\$ 508,442	\$ 621,105	\$ (120,360)	\$ 500,745
Trademark	indefinite	7,500		7,500	7,500		7,500
Total		\$ 651,278	\$ (135,336)	\$ 515,942	\$ 628,605	\$ (120,360)	\$ 508,245

(1) Includes \$46 million of in-process research and development assets that are not yet subject to amortization until they reach commercial feasibility.

Finite-lived intangible assets are amortized on a straight-line method. Total amortization expense related to finite lived intangible assets was \$17.4 million and \$2.1 million for the three months ended September 30, 2014 and 2013, respectively, which included computer software amortization expense of \$1.5 million and \$0.5 million for the three months ended September 30, 2014 and 2013, respectively.

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

The weighted average life of the Company's total finite-lived intangible assets is approximately 9 years, which includes average lives of approximately 10 years for core technology and content and approximately 6 years for customer relationships. The Company's indefinite-lived intangible asset of approximately \$7.5 million was for one-time consideration given for a perpetual, worldwide license for the use of the Bally trademark in connection with the Company's business.

Future amortization of finite lived intangible assets is scheduled as follows:

<b>Year Ended June 30,</b>		<b>(in 000s)</b>
2015 (remaining nine months of fiscal year)	\$	54,305
2016		70,788
2017		68,643
2018		67,143
2019		50,273
Thereafter		197,290
<b>Total</b>	<b>\$</b>	<b>508,442</b>

Table of Contents**6. LONG-TERM DEBT**

	September 30, 2014	(in 000s)	June 30, 2014
Revolving credit facility	\$ 735,000		\$ 770,000
Term loan A	332,500		340,000
Term loan B, net of discounts of \$6,900 and \$7,189, respectively	813,457		815,239
Other, generally unsecured	113		179
Long-term debt	1,881,070		1,925,418
Less current maturities	(38,399)		(38,465)
Long-term debt, net of current maturities	\$ 1,842,671		\$ 1,886,953

As of September 30, 2014 and June 30, 2014, there was approximately \$335 million and \$300 million, respectively, 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 19, 2013, the Company amended and restated its existing credit agreement (the Amended and Restated Credit Agreement) that provides for a five-year \$1.07 billion senior secured credit facility comprised of a \$370 million term loan (Term Loan A) and a \$700 million 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 Secured Credit Facility).

On November 25, 2013, the Company completed the Acquisition and entered into Term Loan B with an aggregate principal amount of \$1.1 billion. The Company capitalized debt issuance costs of \$22.5 million associated with the Term Loan B, of which \$10.5 million were recorded as a discount to long-term debt and \$12.0 million were recorded as other assets, net.

On May 27, 2014, the Company entered into an incremental joinder agreement and Amendment No. 2 (the Second Amendment) to its Amended and Restated Credit Agreement. The Second Amendment increased the borrowing capacity of the Revolving Credit Facility by \$370 million, extended the maturity date of Term Loan A and Revolving Credit Facility to May 27, 2019, and revised the leverage-based pricing grid. As a result of the Second Amendment, the Company wrote-off net debt issuance costs of \$0.2 million.

In May 2014, the Company made a payment of \$270 million on the Term Loan B. As a result of the payment, the Company wrote-off related net debt issuance costs of \$4.7 million and discount to long-term debt of \$2.4 million to other expense.

Term Loan A requires quarterly principal payments of \$7.5 million from June 2014 through March 2016; and \$5.0 million from June 2016 until the Term Loan A's maturity in May 2019, when the remaining outstanding principal balance of \$227.5 million is due. Term Loan B requires quarterly principal payments equal to \$2.1 million until its maturity in November 2020, when the remaining outstanding principal balance of \$770.6 million is due.

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

As of September 30, 2014 and June 30, 2014, the interest rate on the Revolving Credit Facility was 2.15%, the interest rate on the Term Loan A was 3.51% and 3.65%, respectively, and the interest rate on the Term Loan B was 4.25%, after giving effect to the floating-to-fixed interest rate swaps.

The Amended and Restated Credit Agreement is collateralized by substantially all of the Company's domestic assets and is guaranteed by each of its 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 September 30, 2014 and June 30, 2014, the fair value of long-term debt approximated the carrying value.

The Amended and Restated Credit Agreement 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 otherwise restrict corporate activities.

Table of Contents

The financial covenants under the Amended and Restated Credit Agreement 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 Amended and Restated Credit Agreement. In the event of any such default, the lenders could elect to declare all borrowings outstanding under the Amended and Restated Credit Agreement, together with any accrued interest and other fees, to be due and payable. If the Company was unable to repay the indebtedness upon its acceleration, the lenders could proceed against the underlying collateral. The Company was in compliance with the Amended and Restated Credit Agreement covenants as of September 30, 2014 and June 30, 2014.

*Interest Rate Swap Agreements*

Effective June 2011, the Company entered into a floating-to-fixed rate swap agreement with a maturity date of May 13, 2016 to fix a portion of the floating LIBOR-based debt under the Secured Credit Facility to fixed-rate debt at an interest rate of 2.09% (plus applicable margin). In October 2013, the Company entered into an additional floating-to-fixed rate swap agreement with a maturity of June 30, 2018 to fix an additional portion of the floating LIBOR-based debt of the Secured Credit Facility to fixed-rate debt at an interest rate of 2.04% (plus applicable margin). The interest swaps have accreting and subsequently amortizing notionals in order to hedge the targeted amount of debt over the life of the swaps. In January 2014, the Company entered into an additional floating-to-fixed rate swap agreement with a maturity of June 30, 2020 to fix an additional portion of the floating LIBOR-based debt of the Secured Credit Facility to fixed-rate debt at an interest rate of 3.00% (plus applicable margin) for \$450 million of such debt, without any accreting or amortizing features. At September 30, 2014 and June 30, 2014, the swap agreements had notional values of \$232.5 million and \$240.0 million of active swaps and \$550.0 million and \$550.0 million of forward starting swaps, respectively.

The Company has documented and designated the 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 fiscal 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 values with a corresponding offset to accumulated Other Comprehensive Income ( OCI ) for all effective amounts and interest expense for all ineffective amounts. 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. As of September 30, 2014 and June 30, 2014, the Company had no ineffectiveness on its cash flow hedges. Amounts related to the swaps expected to be reclassified from OCI to interest expense in the next twelve months total \$4.0 million. Additional information on the Company's interest rate swaps as of September 30, 2014 is as follows:

Interest Rate Derivative Financial Instruments	Balance Sheet Location	Fair Value (in 000s)	Location of Offsetting Balance
Cash flow hedges	Accrued and other liabilities	\$ 4,033	
	Other liabilities	10,568	
		\$ 14,601	Accumulated other comprehensive income (before income taxes)

**7. 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 three months ended September 30, 2014 and 2013, employees purchased 12,331 shares and 12,259 shares of common stock for approximately \$0.8 million and \$0.8 million, respectively, under the 2008 ESPP.

Table of Contents*Share-Based Award Plans*

Stock option activity as of and for the three months ended September 30, 2014 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, 2014	783	\$ 28.51		\$ 29,150
Granted				
Exercised	(122)	26.39		
Forfeited or expired	(28)	40.93		
Balance outstanding as of September 30, 2014	633	\$ 28.35	2.06	\$ 33,134
Exercisable as of September 30, 2014	578	\$ 27.32	1.88	\$ 30,836

Restricted stock and RSU activity as of and for the three months ended September 30, 2014 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, 2014	583	\$ 56.22	119	\$ 56.08
Granted	5	69.21	1	64.93
Vested	(46)	43.22		
Forfeited or expired	(36)	47.77	(40)	45.83
Balance outstanding as of September 30, 2014	506	\$ 58.15	80	\$ 61.21

*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 September 30,	
	2014	2013
	(in 000s)	
Selling, general and administrative	\$ 2,737	\$ 2,389
Research and development costs	1,109	1,044
Cost of gaming equipment and systems and gaming operations	34	29
Share-based compensation expense before tax	3,880	3,462
Income tax benefit	1,358	1,212

Net share-based compensation expense	\$	2,522	\$	2,250
--------------------------------------	----	-------	----	-------

As of September 30, 2014, there was \$0.4 million of total unrecognized compensation expense related to the unvested portion of stock options which will be recognized over the subsequent 1.15 years. In addition, as of September 30, 2014, there was \$26.9 million of total unrecognized compensation expense related to the unvested portion of restricted stock and RSUs which will be recognized over the subsequent 1.95 years.

## 8. STOCKHOLDERS EQUITY

### *Share Repurchase Plan*

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.

On April 24, 2013, the Company's Board of Directors approved a \$300 million share repurchase program which replaced the existing repurchase program at the time of approval.



Table of Contents

On April 24, 2013, the Company entered into an accelerated share repurchase agreement ( ASR Program ) with J.P. Morgan Securities LLC ( JPMorgan ) under which it paid JPMorgan \$150 million and received an initial delivery of 2.3 million shares, which shares represented 85% of the ASR Program s value at a price of \$54.27 per share. Shares representing the remaining 15% of the ASR Program s value were delivered at maturity of the ASR Program, with the final number of shares repurchased based on the volume-weighted average price of the Company s common stock during the repurchase period, less an agreed upon discount and adjusted for the initial share delivery. The ASR Program settled on September 27, 2013 with the delivery of an additional 27,344 shares. The volume-weighted average price during the repurchase period was \$63.11 per share.

The ASR Program was originally accounted for as two separate transactions: (a) as shares of common stock acquired in a share repurchase transaction and (b) as a forward contract indexed to the Company s common stock. The initial delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net earnings per share from the effective date of the ASR Program. The Company determined that the forward contract indexed to its common stock met all of the applicable criteria for equity classification. As such, the Company recorded the \$150 million of shares repurchased as a purchase of treasury stock of \$127.5 million and a forward contract included in additional-paid-in-capital of \$22.5 million as of June 30, 2013. On September 27, 2013, the forward contract was settled.

During the three months ended September 30, 2014, the Company repurchased 0.4 million shares of common stock for \$23.6 million, under the share repurchase plan. There were no repurchases made under the share repurchase plan for the three months ended September 30, 2013. As of September 30, 2014, \$78.9 million remained available under the plan for repurchase in future periods.

## **9. 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 35.9% and 29.9% for the three months ended September 30, 2014 and 2013, respectively. The increase in the effective income tax rate for the three months ended September 30, 2014, when compared to the same period in 2013, is primarily attributable to the IRS settlement in the three months ended September 30, 2013 discussed below.

The IRS commenced examination of the Company s United States federal income tax returns for 2006 through 2009 during fiscal year 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 and the case was assigned to the IRS Appeals Office in Laguna Niguel, California. In June 2013, the Company agreed to settle all remaining issues with the IRS. Formal closure of the case occurred in July 2013 and the Company has received a refund from the IRS of \$7.7 million, including \$0.6 million in interest. As a result, the Company recognized a reduction to unrecognized tax benefits and a corresponding reduction of income tax provisions of approximately \$3.6 million in the three months ended September 30, 2013.

The IRS commenced examination of the Company s United States federal income tax return for 2012 during fiscal year 2014. The Company files numerous consolidated and separate income tax returns in the United States and various state and foreign jurisdictions. In addition to the IRS examination above, the Company is currently under examination in certain states 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 2009.

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

As of September 30, 2014, the Company has \$9.9 million related to uncertain tax positions, excluding related accrued interest and penalties, \$9.8 million of which, if recognized, would impact the effective tax rate. As of September 30, 2014, the Company has \$0.4 million accrued for the payment of interest and penalties.

It is reasonably possible that the Company's amount of unrecognized tax benefits may decrease within the next twelve months by up to \$5.0 million.

Table of Contents**10. COMMITMENTS AND CONTINGENCIES***Litigation*

In the ordinary course of business, the Company is involved in various legal proceedings and other matters that are complex in nature and have outcomes that are difficult to predict. The Company records accruals for such contingencies to the extent that the Company concludes that it is probable that a loss will be incurred and the amount of loss can be reasonably estimated. No estimate of the reasonably possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters specifically described below because the inherently unpredictable nature of legal proceedings may be affected by various factors, including: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery or other material legal proceedings are incomplete; (iii) the proceeding is in its early stages and there is insufficient information available to assess the viability of the stated grounds; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; or (vi) the trier of fact is granted latitude by applicable law to apply judgment. Our assessment of each matter may change based on future unexpected events. An unexpected adverse judgment in any pending litigation could cause a material impact on our business operations, gaming licenses, intellectual property, results of operations or financial position. Unless otherwise expressly stated, the Company believes costs associated with litigation will not have a material impact on its financial position or liquidity, but may be material to the results of operations in any given period. The Company assumes no obligation to update the status of pending litigation after the date of this Quarterly Report on Form 10-Q, except as may be required by applicable law, statute or regulation.

**Macau SHFL FUSION Hybrid Table Games Patent Issue.** In June 2009, customs officials from Macau SAR seized a *SHFL FUSION* Hybrid Table Game unit displayed by SHFL entertainment (Asia) Limited ( *SHFL Asia* ) at the G2E Asia Gaming Show. This seizure related to a claim by Jay Chun ( *Chun* ) of alleged patent infringement. In October 2009, the Office of the Public Prosecutor dismissed the investigation after a series of appeals and procedural developments. Chun appealed to the Investigation Judge, which proceedings were dismissed. From this decision, Chun appealed to the Macau Second Instance Court, which remanded the matter to the Investigation Court Tribunal de Instrução Criminal for further proceedings. A Trial Hearing of this matter concluded in July 2013, with the acquittal of SHFL Asia and a finding of no patent infringement. On July 29, 2013, Chun appealed the acquittal to the Macau Second Instance Court. The Company believes that it has meritorious defenses and intends to continue to vigorously defend this matter.

In May 2012, Chun along with Natural Noble Limited ( *Natural Noble* ), a company controlled by Paradise Entertainment and ultimately controlled by Chun (collectively, the *Natural Noble Plaintiffs* ), obtained an ex parte decision from a Macau court allegedly enjoining one of our subsidiaries. The injunction was requested and ordered against an alleged Australian entity named Shuffle Master Asia Limited, which entity does not exist. The injunction sought to prevent SHFL Asia from displaying any products that infringe the *Natural Noble Plaintiffs* patents during the 2012 G2E Asia Gaming Show, even though the decision did not specify which of SHFL Asia's products displayed at the G2E Asia Gaming Show would allegedly infringe such patents. After initially agreeing with Macau customs officials' request to cover the *SHFL FUSION* Hybrid Table Game unit, SHFL Asia received court approval to post a bond of approximately \$0.1 million to enable SHFL Asia to display the *SHFL FUSION* Hybrid Table Game unit at the G2E Asia Gaming Show. In February 2013, SHFL Asia submitted arguments of appeal contesting the decision to grant the injunction to the Macau Second Instance Court. The Court dismissed the appeal on July 18, 2013 based on the fact that SHFL Asia is not the entity against which the injunction was granted, but rather the injunction was granted against the non-existent Australian entity. Therefore, the Court found that SHFL Asia did not have procedural standing to appeal the decision. Several appeals have been heard since. The Company believes that it has meritorious claims and intends to continue to vigorously pursue the matter.

In June 2012, the *Natural Noble Plaintiffs* and LT Game Limited, a company controlled by Paradise Entertainment (collectively, the *LT Game Plaintiffs* ), filed a writ of summons with a Macau court seeking monetary damages and other civil relief as a result of the alleged infringement of the *Natural Noble Plaintiffs* patents by SHFL Asia and SHFL at the 2012 G2E Asia Gaming Show. A trial date has not yet been set for this matter. The Company believes that it has meritorious defenses, has submitted its defenses and counterclaims in this matter and intends to

continue to vigorously defend this matter.

In October 2012, SHFL Asia filed a lawsuit with a Macau court against the LT Game Plaintiffs and Paradise Entertainment, Inc. (collectively the Paradise Defendants ), a company that the Company believes is the ultimate parent company of LT Game Limited and Natural Noble. This lawsuit seeks an injunction against the Paradise Defendants' assertions of monopolistic rights. The lawsuit alleges, in part, that the Paradise Defendants cannot restrict SHFL Asia from selling or using multi-game terminal betting products in Macau by claiming to hold exclusivity rights on the selling or using of multi-game betting terminal products in Macau. A Trial Hearing began in June 2013 and concluded in November 2013. The injunction request was denied. In November 2013, an appeal of this interim injunction decision was filed by SHFL Asia to the Court of Second Instance. In July 2014, the case was dismissed by the Court of Second Instance, fundamentally on grounds that there is no sufficient evidence that the Paradise Defendants had claimed to have any monopolistic rights on the selling or using of multi-game betting products in Macau. The matter remains under dispute in the principal proceedings filed in connection with the injunction. The Company believes that it has a meritorious case and intends to continue to vigorously pursue this claim.

Table of Contents

In November 2013, SHFL Asia displayed a *SHFL FUSION* Hybrid Table Game unit at the Macau Gaming Show. The LT Game Plaintiffs obtained an ex-parte interim injunction prohibiting SHFL Asia from taking any actions that would allegedly infringe a patent owned by Natural Noble during the Macau Gaming Show. As a result of this injunction, during the Macau Gaming Show, Macau customs officials covered the *SHFL FUSION* Hybrid Table Game unit for a period of time. In December 2013, an appeal of this interim injunction was filed by SHFL Asia to the Court of Second Instance. In July 2014, the Court of Second Instance decided on the merits of the appeal in favor of SHFL Asia, having therefore revoked the previous decision and thereby removing the injunction, fundamentally on grounds that no evidence has been produced on any patent infringement. In August 2014, the LT Game Plaintiffs filed an appeal to the Court of Final Instance. The Company believes that it has meritorious defenses and intends to vigorously pursue this matter.

**Acquisition Litigation.** Prior to the consummation of the Acquisition, a number of putative class actions and shareholder derivative actions challenging the Acquisition were filed against the Company, Manhattan Merger Corp., SHFL, and SHFL's then current directors in various jurisdictions that generally alleged breach of fiduciary duties and that the entity defendants aided and abetted those alleged breaches, and sought, among other relief, declaratory judgment and an injunction against the transaction. In May 2014, the Company and the plaintiffs to the Minnesota action stipulated to a dismissal without prejudice and the Minnesota State Court entered an order dismissing the action without prejudice. In August 2014, the Company and the plaintiffs to the Nevada action stipulated to a dismissal with prejudice and the Nevada State Court entered an order dismissing the action with prejudice. All of the Acquisition Litigation actions have been dismissed.

**Litigation Relating to the Merger.** The following complaints challenging the merger have been filed in the District Court of the Eighth Judicial District, County of Clark, Nevada (the Nevada court): (i) Shaev v. Bally Technologies, Inc., et al., No. A-14-705012-B; (ii) Crescente v. Bally Technologies, Inc., et al., No. A-14-705144-C; (iii) Lewandoski v. Bally Technologies, Inc., et al., No. A-14-705153-C; (iv) Rosenfeld v. Bally Technologies, Inc., et al., No. A-14-705162-B; (v) Stein v. Bally Technologies, et al., No. A-14-705338-B; and (vi) Hahm v. Bally Technologies, Inc., No. A-14-706234-C. Each of the actions is a putative class action filed on behalf of the public stockholders of Bally Technologies, Inc. and names as defendants Bally, its directors, Scientific Games, Merger Sub and Financing Sub. The complaints generally allege that the individual defendants breached their fiduciary duties in connection with their consideration and approval of the merger. Four of the six complaints also allege that all of the entity defendants aided and abetted the purported breaches by the individual defendants. Of the remaining two complaints, Shaev v. Bally Technologies, Inc., et al., alleges that Scientific Games, Merger Sub and Financing Sub aided and abetted the individual defendants' purported breaches but makes no such claim against Bally, and Hahm v. Bally Technologies, Inc., et al., alleges that Bally alone aided and abetted the individual defendants' purported breaches. The complaints seek, among other relief, to enjoin the merger.

On August 26, 2014, the Shaev, Crescente, Lewandoski, Rosenfeld and Stein actions were consolidated into a single proceeding under the caption *In re Bally Technologies, Inc. Stockholders Litigation*, No. A-14-705012-B (the Nevada Action). The Hahm action was consolidated into the Nevada Action after it was filed on August 27, 2014. On or about September 19, 2014, the plaintiffs served an amended consolidated class action complaint. On or about October 3, 2014, those plaintiffs filed a motion for expedited proceedings. On October 7, 2014, the defendants filed motions to dismiss the Nevada Action based on the plaintiffs' failure to state a claim on which relief may be granted. On October 8, 2014, the plaintiffs in the Nevada Action withdrew their motion for expedited discovery and the parties entered into preliminary settlement discussions.

On October 17, 2014, following arm's-length negotiations, the parties to the Nevada Action (the Settling Parties) entered into a Memorandum of Understanding (MOU) providing for the settlement in principle of all claims asserted in the Nevada Action on a class-wide basis, subject to certain confirmatory discovery by the plaintiffs in the Nevada Action and the approval of the Nevada court. While Bally believes that no further disclosure was required under applicable laws to supplement the preliminary proxy statement Bally filed with the SEC on September 8, 2014, Bally agreed, pursuant to the terms of the MOU, to make certain supplemental disclosures in the definitive proxy statement it filed on October 20, 2014. Bally and the other named defendants entered into the MOU solely to avoid the costs, risks and uncertainties inherent in litigation and without admitting any liability or wrongdoing, and vigorously denied, and continue to vigorously deny, that they have committed any violation of law or engaged in any of the wrongful acts that were alleged in the Nevada Action. The MOU outlines the terms of the Settling Parties' agreement in principle to settle and release all claims which were or could have been asserted in the Nevada Action.

The parties to the MOU have agreed promptly to enter into a stipulation of settlement that will be presented to the Nevada court for final approval. The stipulation of settlement will be subject to customary conditions, including approval by the Nevada court, which will consider the fairness, reasonableness and adequacy of the settlement. The stipulation of settlement will provide for, among other things, the conditional certification of the consolidated Nevada Action as a non-opt-out class action. The stipulation of settlement will provide for the release of any and all claims arising from the merger, subject to approval by the Nevada court. The release will not

Table of Contents

become effective until the stipulation of settlement is approved by the Nevada court, and there can be no assurance that the Settling Parties will ultimately enter into a stipulation of settlement or that the Nevada court will approve the settlement. In such event, or if the merger is not consummated for any reason, the proposed settlement will be null and void and of no force and effect. Payments made in connection with the settlement, which are subject to court approval, are not expected to be material. The settlement will not affect the consideration to be received by Bally's stockholders in the merger or the timing of the anticipated closing of the merger.

The foregoing description of the MOU does not purport to be complete and is qualified in its entirety by reference to the MOU.

The outcome of the lawsuits cannot be predicted with any certainty. An adverse judgment for monetary damages could have a material adverse effect on the operations and liquidity of Bally. A preliminary injunction could delay or jeopardize the completion of the merger, and an adverse judgment granting permanent injunctive relief could indefinitely enjoin completion of the merger. All of the defendants believe that the claims asserted against them in the lawsuits are without merit.

The Company is also a party to various claims and lawsuits relating to routine matters that arise from time to time in the ordinary course of its business. Although management does not currently believe that the outcome of such claims, in the aggregate, will have a material effect on its consolidated financial position, results of operations or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

## 11. SEGMENT AND GEOGRAPHICAL INFORMATION

The Company operates in legalized casino gaming markets across the globe and provides state-of-the-art, value-add products in four distinct segments: (a) EGMs, which include the sale of gaming devices and related equipment, parts and conversion kits, (b) Gaming Operations, which include the operation of wide-area progressives, video lottery and centrally determined systems and the rental of gaming devices and content, (c) casino-management systems, which include the sale and support of computerized monitoring systems and related recurring hardware and software maintenance revenue, and (d) table game products, which include monthly royalties from proprietary table games as well as sale and lease of table utility products, including automatic card shufflers, deck checkers and roulette chip sorters. Our Chief Executive Officer is our Chief Operating Decision Maker ( CODM ).

The following is a summary of revenues and gross margin for each segment:

	Three Months Ended September 30,	
	2014(1)	2013
	(in 000s)	
Revenues:		
EGMs	\$ 94,186	\$ 71,291
Gaming Operations	106,453	101,902
Systems	74,336	76,096
Table Products	45,830	
Total revenues	\$ 320,805	\$ 249,289

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

Gross Margin(2):

EGMs	\$	48,828	\$	36,021
Gaming Operations		72,007		71,283
Systems		53,274		56,860
Table Products		37,721		
Total gross margin	\$	211,830	\$	164,164

---

(1) Results for the three months ended September 30, 2014 include the Acquisition beginning on November 25, 2013 and the acquisition of Dragonplay beginning on July 1, 2014.

(2) Gross Margin excludes amortization related to intangible assets, which are included in depreciation and amortization.

Our CODM does not receive a report with a measure of total assets for each reportable segment as this information is not available or necessary for the CODM's evaluation of segment performance. Therefore, the Company has not provided asset and capital expenditure information by reportable segment.



Table of Contents

EGMs and Systems revenues and costs are included in Gaming equipment and systems revenues. Gaming Operations revenues and costs are included in Product lease, operation and royalty revenues.

Table Products revenues include \$17.7 million and \$28.1 million included in Gaming equipment and systems revenues and Product lease, operation and royalty revenues, respectively, for the three months ended September 30, 2014. Table Products gross margin includes \$12.9 million and \$24.8 million included in Gaming equipment and systems gross margin and Product lease, operation and royalty gross margin, respectively, for the three months ended September 30, 2014.

The Company has operations based primarily in the United States as well as significant sales and distribution offices based in Australia, Macau and Europe. 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 September 30,		
	2014(1)	(in 000s)	2013
<b>Revenues:</b>			
United States and Canada	\$	234,989	\$ 219,012
International		85,816	30,277
Total revenues	\$	320,805	\$ 249,289
<b>Operating income:</b>			
United States and Canada	\$	48,135	\$ 55,607
International		14,307	1,361
Total operating income	\$	62,442	\$ 56,968

(1) Results for the three months ended September 30, 2014 include the Acquisition beginning on November 25, 2013 and the acquisition of Dragonplay beginning on July 1, 2014.

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

We begin this section with a summary of our operations as of September 30, 2014. 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 months ended September 30, 2014 and 2013. 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

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

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, 2014 (the 2014 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, the Merger with Scientific Games 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.

Table of Contents**Business Overview**

We are a diversified global gaming supplier that designs, manufactures, operates and distributes EGMs, networked and casino-management systems, table game products and interactive applications that drive revenue and provide operating efficiencies for gaming operators. We supply innovative hardware and games, including spinning-reel and video gaming devices, specialty gaming devices, automatic card shufflers, proprietary table game content and wide-area progressive systems. Our casino-management technology solutions allow our customers to more effectively manage their operations using our wide range of marketing, data management and analysis, accounting, player tracking, security and other software applications and tools. Under our business-to-business model, we support customers that include traditional land-based, riverboat, and Native American casinos, interactive, video lottery and central determination markets.

Key innovation drivers in our industry are Ethernet-based gaming floors, downloadable and server-based games and applications, and open protocols and common industry standards in game and system development, such as GSA protocols. We believe that players benefit from these advances by gaining more exciting experiences, better communication from casino owners, and superior customer service from gaming operators; our customers benefit through operational efficiencies that can increase their profits and streamline their operations as well as new ways to drive excitement and play on the casino floor through the ability to do system-based floor-wide promotions and slot tournaments.

On November 25, 2013, we completed the acquisition of SHFL entertainment, Inc. (the *Acquisition*) for total purchase consideration of \$1.38 billion (see Note 2 to the unaudited condensed consolidated financial statements, *Business Combinations*). The Acquisition was funded primarily from proceeds of a new Term Loan B and borrowings from our existing Revolving Credit Facility (see Note 6 to the unaudited condensed consolidated financial statements, *Long-Term Debt*).

On July 1, 2014, we completed the acquisition of Dragonplay Ltd. (*Dragonplay*) for initial consideration of \$51.3 million cash, net of cash acquired of \$34.9 million. Additional earn-out consideration and employee retention payments, not to exceed \$48.7 million, may be due during the 18 months following the acquisition date subject to achievement of certain financial performance targets. The acquisition of Dragonplay was funded from cash on hand and proceeds from our existing Revolving Credit Facility.

We derive our revenue from the distribution of EGMs, casino-management systems and interactive applications, and table game products. The table below presents our business segments and the percentage of total revenue contributed by each segment:

	2014(1)	Three Months Ended September 30,		
		% Rev	2013	% Rev
	(dollars in millions)			
EGMs	\$ 94.2	30%	\$ 71.3	29%
Gaming Operations	106.5	33%	101.9	41%
Systems	74.3	23%	76.1	30%
Table Products	45.8	14%		
	\$ 320.8	100%	\$ 249.3	100%

(1) Results for the three months ended September 30, 2014 include the Acquisition and the acquisition of Dragonplay.

We operate in legalized gaming markets across the globe and provide state-of-the-art, value-add products in four distinct segments:

- *EGM* 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.
- *Systems* Sale and support of specialized casino-management systems-based software, hardware and interactive products and related recurring maintenance revenue.
- *Table Products* Monthly royalties from proprietary table game content as well as sale and lease of table utility products, including automatic card shufflers, deck checkers and roulette chip sorters.

Table of Contents

Interactive products revenues are currently not material to the consolidated financial statements. We review certain financial measures in assessing our financial condition and operating performance not only in connection with creating our internal forecasts and in making comparisons to financial results from prior periods, but also in making comparisons to our competitors' financial results. 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 earnings per share, Adjusted EBITDA (adjusted to remove the effect of asset charges and loss contingencies, restructuring and acquisition-related costs, 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 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.

The gaming sector was negatively impacted by a prolonged reduction in consumer spending and limited resources available to fund capital projects. While consumer spending on gaming activities has increased, as a result of this prolonged economic environment we provided select customers more favorable 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 to certain customers for these longer periods for the foreseeable future.

There are several new and potential gaming market developments that we believe will benefit us in the long term. In our domestic market, we are focused on approved new jurisdictional opportunities and expansions in Illinois, Ohio, Maryland, Louisiana, Mississippi, Massachusetts, New York 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 renewed economic uncertainty. We are also engaged in expanding our position in South Africa, Australia, Macau, New Zealand, and the Philippines, and into potential new markets in Eastern Europe, Greece, Taiwan, South Korea, Japan and Brazil.

**EGM**

	<b>Three Months Ended September 30,</b>	
	<b>2014(1)</b>	<b>2013</b>
	<b>(dollars in millions, except ASP)</b>	
Revenues	\$ 94.2	\$ 71.3
New EGM units sold(2)	4,744	3,995
Average Selling Price ( ASP )	\$ 17,767	\$ 16,307

(1) Results for the three months ended September 30, 2014 include the Acquisition.

(2) Includes 279 and -0- ETS seats sold during the three months ended September 30, 2014 and 2013, respectively.

Revenues increased in the three months ended September 30, 2014, when compared to 2013, due primarily to the Acquisition. Overall, there was an increase in unit sales in Australia coupled with an increase in ASP. The ASP increase was primarily due to the increase in Australia sales

volume and an increase in sales of the new higher-priced *Pro Wave* premium cabinet.

EGM gross margin increased to 52% in the three months ended September 30, 2014, when compared to 50% in the three months ended September 30, 2013, due primarily to product mix and the increase in ASP.

Table of Contents**Gaming Operations**

	Three Months Ended September 30,	
	2014(1)	2013
	(dollars in millions)	
Revenues	\$ 106.5	\$ 101.9
End of period installed base:		
Linked progressive systems	2,378	2,522
Rental and daily-fee games	15,496	14,533
Lottery systems (2)	12,591	11,907
Centrally determined systems	29,311	33,711

(1) Results for the three months ended September 30, 2014 include the Acquisition.

(2) Excludes 703 and 727 third-party ETS seats operating as of September 30, 2014 and 2013, respectively.

Revenues increased in the three months ended September 30, 2014, when compared to the three months ended September 30, 2013, due primarily to the Acquisition, as well as the significant investments we have made in our game development studios and game platform over the past few years, the continued placement of premium games, and an increase in wide-area progressive revenue ( WAP ). Gross margins were 68% and 70% for the three months ended September 30, 2014 and 2013, respectively. Gross margins in the three months ended September 30, 2014 were impacted by the inclusion of lower margin leased electronic table system ( ETS ) seats.

The installed base of centrally determined systems has declined primarily due to certain customers who have upgraded these systems to utilize some of our more sophisticated player tracking, bonus and marketing applications, which are included in systems maintenance revenues. In addition, the decline is also due to the loss of certain license fees in Mexico. The license fees are single-dollar-per-day units and make up a nominal amount of revenue.

**Systems**

	Three Months Ended September 30,			
	2014 (1)	2013		
	(dollars in millions)			
Hardware	\$ 24.1	33%	\$ 23.1	30%
Software and services	27.0	36%	27.9	37%
Maintenance	23.2	31%	25.1	33%
	\$ 74.3	100%	\$ 76.1	100%

(1) Results for the three months ended September 30, 2014 include the acquisition of Dragonplay.

Our Systems revenues are comprised of:

- Hardware, including our *iVIEW* player-user-interface device and specialized system-based products.
- Software and services, including licenses of our core systems and suite of player tracking, bonusing, and marketing applications and customized system solutions.
- Maintenance, providing access to future enhancements or upgrades to the system software for a fee based on a percent of the license fee.

The decrease in Systems revenues in the three months ended September 30, 2014, when compared to the three months ended September 30, 2013, was due primarily to a large system installation recognized in the prior period offset by the inclusion of revenues from the acquisition of Dragonplay of \$4.5 million during the current period.



Table of Contents

Gross margins were 72% and 75% for the three months ended September 30, 2014 and 2013, respectively. Gross margins in the three months ended September 30, 2014 were impacted by product mix, including an increase in hardware revenue which typically have higher variable costs than maintenance or software and services revenues.

**Table Products**

	<b>Three Months Ended September 30,</b>	
	<b>2014(1)</b>	<b>2013</b>
	<b>(dollars in millions, except ASP)</b>	
Revenues	\$ 45.8	\$
Utility units sold	824	
ASP	\$ 16,967	\$
Proprietary Table Games ( PTGs ) units sold	8	
ASP	\$ 41,172	\$
End of period installed base:		
Utility	9,324	
PTGs	3,065	
Table games progressive units, table side bets and add-ons	5,761	

(1) Results for the three months ended September 30, 2014 include the Acquisition.

Revenues increased during the three months ended September 30, 2014, when compared to the three months ended September 30, 2013, due entirely to the Acquisition which consisted primarily of revenues from PTG and Utility products, including automatic card shufflers, deck checkers and roulette chip sorters during the period. Utility revenues were \$30.6 million and PTG revenues were \$15.2 million for the three months ended September 30, 2014.

Revenues from the sale and lease of Table Products include \$17.7 million and \$28.1 million included in Gaming equipment and systems revenues and Product lease, operation and royalty revenues, respectively, for the three months ended September 30, 2014. Table Products gross margin includes \$12.9 million and \$24.8 million included in Gaming equipment and systems gross margin and Product lease, operation and royalty gross margin, respectively, for the three months ended September 30, 2014. Table Products gross margin during the three months ended September 30, 2014 was 82%.

**Operating Expenses**

	<b>Three Months Ended September 30,</b>		
	<b>% of</b>	<b>2013</b>	<b>% of</b>
<b>2014(1)</b>	<b>Revenue</b>		<b>Revenue</b>
	<b>(dollars in millions)</b>		

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

Selling, general and administrative	\$	93.2	29%	\$	72.4	29%
Research and development ( R&D ) costs	\$	34.4	11%	\$	29.5	12%

(1) Results for the three months ended September 30, 2014 include the Acquisition beginning on November 25, 2013 and the acquisition of Dragonplay beginning on July 1, 2014 (collectively the Acquisitions ).

The primary increases in SG&A expenses were in payroll and related expenses, primarily due to the Acquisitions, and bad debt expense, as well as in other costs related to the Acquisitions, and our pending Merger with Scientific Games. Total restructuring and acquisition-related costs during the three months ended September 30, 2014 and 2013 were approximately \$2.6 million and \$5.2 million, respectively (see Note 1 to the unaudited condensed consolidated financial statements, *Description of Business and Summary of Significant Accounting Policies*). Total costs related to the pending merger with Scientific Games were approximately \$5.7 million during the three months ended September 30, 2014.

Table of Contents

The increase in R&D costs was attributable to the Acquisitions and our continued focus on our technology assets, the expansion of technical resources, and the competitive landscape that requires continuous development of future generations of gaming products and systems. R&D decreased to 11% of total revenues, when compared to 12% in the same period last year.

**Liquidity**

Total cash and cash equivalents decreased \$3.0 million in the three months ended September 30, 2014, when compared to an increase of \$3.0 million in the same period last year.

Net cash provided by operating activities was \$50.9 million and \$54.6 million for the three months ended September 30, 2014 and 2013, respectively. Cash provided by operating activities in the current period was driven by changes in operating assets and liabilities including inventories, other current assets and other assets, accrued liabilities and jackpot liabilities, and deferred revenue and deferred cost of revenue. The decreases to net cash provided by operating activities were partially offset by changes in accounts and notes receivable during the current period.

**Results of Operations**

The summary financial results and operating statistics are as follows:

	2014(2)	Three Months Ended September 30,		2013	% Rev
		% Rev			
		(dollars in millions)			
<b>Revenues:</b>					
EGM	\$ 94.2	30%	\$ 71.3		29%
Gaming Operations	106.5	33%	101.9		41%
Systems	74.3	23%	76.1		30%
Table Products	45.8	14%			
Total revenues	\$ 320.8	100%	\$ 249.3		100%
<b>Gross Margin(1):</b>					
EGM	\$ 48.8	52%	\$ 36.0		50%
Gaming Operations	72.0	68%	71.3		70%
Systems	53.3	72%	56.9		75%
Table Products	37.7	82%			
Total gross margin	\$ 211.8	66%	\$ 164.2		66%
Selling, general and administrative(3)	\$ 93.2	29%	\$ 72.4		29%
Research and development costs	34.4	11%	29.5		12%
Depreciation and amortization	21.8	7%	5.3		2%
Operating income(3)	\$ 62.4	19%	\$ 57.0		23%

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

- (1) Gross Margin excludes amortization related to intangible assets which are included in depreciation and amortization.
- (2) Results for the three months ended September 30, 2014 include the Acquisition and the acquisition of Dragonplay.
- (3) SG&A expenses and operating income for the three months ended September 30, 2014 was impacted by restructuring and acquisition-related costs of \$2.6 million and costs related to the pending Merger of \$5.7 million. SG&A and operating income for the three months ended September 30, 2013 was impacted by restructuring and acquisition-related costs of \$5.2 million.

**Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013**

Total revenues increased \$71.5 million to \$320.8 million, or 29%, in the three months ended September 30, 2014, when compared to the same period last year, and was comprised of the following:

EGM Revenue. Revenue increased by \$22.9 million, or 32%, to approximately \$94.2 million primarily as a result of:

- a 19% increase in new EGM units sold to 4,744 units in the three months ended September 30, 2014, when compared to 3,995 units in the same period last year, due primarily to an increase in units sold in Australia in the current period; and

Table of Contents

- a 9% increase in ASP to \$17,767 in the three months ended September 30, 2014, when compared to \$16,307 in the same period last year, due primarily to geographic mix, including an increase in units sold in Australia, and an increase in sales of the new higher-priced *Pro Wave* premium cabinet during the current period.

*EGM Gross Margin.* Gross margin increased to 52% in the three months ended September 30, 2014 from 50% in the same period last year, due primarily to product mix and the increase in ASP during the current period.

*Gaming Operations Revenue.* Revenue increased \$4.6 million, or 5%, to approximately \$106.5 million in the three months ended September 30, 2014, when compared to the same period last year, primarily as a result of the continued placements of premium games, an increase in WAP, and the inclusion of 2,242 leased ETS seats.

*Gaming Operations Gross Margin.* Gross margin decreased to 68% in the three months ended September 30, 2014 from 70% in the same period last year, due primarily to the inclusion of lower margin leased ETS seats.

*Systems Revenue.* Revenue decreased \$1.8 million, or 2%, to approximately \$74.3 million in the three months ended September 30, 2014, when compared to the same period last year, due primarily to a large system installation recognized in the prior period. Revenues from the acquisition of Dragonplay were \$4.5 million during the three months ended September 30, 2014.

*Systems Gross Margin.* Gross margin decreased to 72% in the three months ended September 30, 2014 from 75%, in the same period last year, primarily as a result of a change in the mix of products sold in the comparative periods including an increase in hardware revenue which have higher variable costs than maintenance or software and services revenues.

*Table Products Revenue.* Revenue increased \$45.8 million in three months ended September 30, 2014, when compared to same period last year, due to the Acquisition which consisted primarily of the sale and lease of new products including PTGs and other table utility products, including automatic card shufflers, deck checkers and roulette chip sorters during the period. Utility revenues were \$30.6 million and PTG revenues were \$15.2 million for the three months ended September 30, 2014.

Revenues from the sale and lease of Table Products include \$17.7 million and \$28.1 million included in Gaming equipment and systems revenues and Product lease, operation and royalty revenues, respectively, for the three months ended September 30, 2014. Table Products gross margin includes \$12.9 million and \$24.8 million included in Gaming equipment and systems gross margin and Product lease, operation and royalty gross margin, respectively, for the three months ended September 30, 2014.

*Table Products Gross Margin.* Gross margin was 82% in the three months ended September 30, 2014.

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

Selling, General and Administrative Expenses. SG&A expenses increased \$20.8 million, or 29%, in the three months ended September 30, 2014, when compared to the same period last year, due primarily to the acquisitions of SHFL and Dragonplay. The primary increases were for the ongoing variable and fixed costs related to restructuring and acquisition-related costs, and increases in payroll and related expenses associated with the Acquisitions, and bad debt expense.

Included in SG&A expenses in the three months ended September 30, 2014 and 2013 are restructuring and acquisition-related costs of \$2.6 million and \$5.2 million, respectively. See Note 1 to the unaudited condensed consolidated financial statements, *Description of Business and Summary of Significant Accounting Principles Restructuring and acquisition-related costs*. Total Merger-related costs were approximately \$5.7 million during the three months ended September 30, 2014.

Research and Development Costs. R&D costs increased \$4.9 million, or 17%, in the three months ended September 30, 2014, when compared to the same period last year, due primarily to the Acquisitions and our continued focus on our technology assets, the expansion of technical resources, and the competitive landscape that requires continuous development of future generations of gaming products and systems. R&D decreased to 11% of total revenues, when compared to 12% in the same period last year.

Depreciation and Amortization Expense. Depreciation and amortization expense increased by \$16.5 million in the three months ended September 30, 2014, when compared to the same period last year, due primarily to amortization expense of \$15.8 million related to intangible assets associated with the Acquisitions.

Table of Contents***Other Income (Expense), Income Tax Expense and Net Income Attributable to Noncontrolling Interests***

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

	<b>Three Months Ended</b>	
	<b>2014</b>	<b>September 30,</b>
	<b>(in millions)</b>	
<b>2013</b>		
Other income (expense)		
Interest income	\$ 1.6	\$ 2.5
Interest expense	(18.3)	(4.4)
Other, net	(0.4)	(0.9)
Total other expense	\$ (17.1)	\$ (2.8)
Income tax expense	(16.2)	(16.2)
Net income attributable to noncontrolling interests	0.2	0.2

*Other Income (Expense).* Total other expense increased \$14.3 million in the three months ended September 30, 2014, when compared to the same period last year, due primarily to increases in interest expense during the period. Interest expense increased \$13.9 million in the three months ended September 30, 2014, when compared to the same period last year, due to the increase in long-term debt during the period associated with the Acquisitions (see Note 6 to the unaudited condensed consolidated financial statements, *Long-Term Debt*). Interest income decreased during the three months ended September 30, 2014, when compared to the same period last year, due primarily to interest related to an IRS refund in the prior year (see Note 9 to the unaudited condensed consolidated financial statements, *Income Taxes*). Losses on foreign currency translation were \$0.4 million in the three months ended September 30, 2014, when compared to losses of \$1.0 million in the same period last year.

*Income Tax Expense.* Income tax expense was \$16.2 million in both the three months ended September 30, 2014 and 2013. The effective income tax rate for the three months ended September 30, 2014 and 2013 was 35.9% and 29.9%, respectively. The increase in the effective income tax rate for the three months ended September 30, 2014, when compared to the same period last year, was primarily attributable to the IRS settlement in the three months ended September 30, 2013 (see Note 9 to the unaudited condensed consolidated financial statements, *Income Taxes*).

*Net income attributable to noncontrolling interests.* Net income attributable to noncontrolling interests was \$0.2 million in both the three months ended September 30, 2014 and 2013.

**Financial Condition and Liquidity*****Working Capital***

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

	September 30, 2014	June 30, 2014	Increase (decrease)	
			Amount	%
	(in 000s)			
Cash and cash equivalents	\$ 74,417	\$ 77,439	\$ (3,022)	(4)%
Total long-term debt, including current maturities	\$ 1,881,070	\$ 1,925,418	\$ (44,348)	(2)%
Total current assets	\$ 582,878	\$ 593,434	\$ (10,556)	(2)%
Total current liabilities	231,434	251,567	(20,133)	(8)%
Net working capital	\$ 351,444	\$ 341,867	\$ 9,577	3%

Our net working capital increased 3% in September 30, 2014, when compared to June 30, 2014. Net decreases in total current assets, including decreases in accounts and notes receivable and increases in other current assets, were offset by net decreases in total current liabilities, including decreases in accrued and other liabilities during the same period.

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 September 30, 2014 and June 30, 2014, these accounts had an aggregate value of approximately \$14.1 million and \$17.2 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 \$19.2 million and \$16.8 million as of September 30, 2014 and June 30, 2014, respectively. In addition to the U.S. Treasury Strip Securities for the benefit of jackpot winners, restricted long-term investments at June 30, 2014 also included \$77.2 million of funds in escrow for the Company's purchase of Dragonplay which was used on July 1, 2014 for the acquisition.



Table of Contents

On September 30, 2014 and June 30, 2014, the amount of cash and investments held by foreign subsidiaries was \$47.2 million and \$59.0 million, respectively. If these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes to repatriate these funds.

Total current and long-term accounts and notes receivable decreased \$31.0 million during the three months ended September 30, 2014, when compared to June 30, 2014. As of September 30, 2014 and June 30, 2014, our DSO s were at 93 and 95 days, respectively.

On April 19, 2013, we amended and restated our existing credit agreement (the Amended and Restated Credit Agreement ) that provides for a five-year \$1.07 billion Secured Credit Facility comprised of a \$370 million Term Loan A and a \$700 million 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 Secured Credit Facility.

On November 25, 2013, we completed the Acquisition and entered into a Term Loan B with an aggregate principal amount of \$1.1 billion. We capitalized debt issuance costs of \$22.5 million associated with the Term Loan B, of which \$10.5 million were recorded as a discount to long-term debt.

On May 27, 2014, we entered into an incremental joinder agreement and Amendment No. 2 (the Second Amendment ) to our Amended and Restated Credit Agreement. The Second Amendment increased the borrowing capacity of the Revolving Credit Facility by \$370 million, extended the maturity date of Term Loan A and Revolving Credit Facility to May 2019, and revised the leverage-based pricing grid. As a result of the Second Amendment, we wrote-off net debt issuance costs of \$0.2 million.

In May 2014, we made a payment of \$270 million on the Term Loan B. As a result of the payment, we wrote-off related net debt issuance costs of \$4.7 million and discount to long-term debt of \$2.4 million.

Term Loan A requires quarterly principal payments of \$7.5 million from June 2014 through March 2016; and \$5.0 million from June 2016 until the Term Loan A s maturity in May 2019, when the remaining outstanding principal balance of \$227.5 million is due.

Term Loan B requires quarterly principal payments equal to \$2.1 million until its maturity in November 2020, when the remaining outstanding principal balance of \$770.6 million is due.

As of September 30, 2014 and June 30, 2014, the interest rate on the Revolving Credit Facility was 2.15%, the interest rate on the Term Loan A was 3.51% and 3.65%, respectively, and the interest rate on the Term Loan B was 4.25%, after giving effect to the floating-to-fixed interest rate swaps.

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

As of September 30, 2014 and June 30, 2014, there was approximately \$335 million and \$300 million, respectively, of undrawn availability under the Revolving Credit Facility. Availability under the Revolving Credit Facility is reduced to the extent of outstanding letters of credit.

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 September 30, 2014, 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 long-term debt, payroll, interest, taxes and SG&A expenses and to fund R&D activities.

Cash flows provided by operating activities were \$50.9 million in the three months ended September 30, 2014 as compared to \$54.6 million in the same period last year, a \$3.7 million decrease. The decrease in net cash provided by operating activities in the three months ended September 30, 2014 was driven by changes in operating assets and liabilities including inventories, other current assets and other assets, accrued liabilities and jackpot liabilities, and deferred revenue and deferred cost of revenue. The decreases to net cash provided by operating activities were partially offset by changes in accounts and notes receivable during the current period.

Table of Contents

Cash utilized for investing activities is primarily for capital expenditures related to office and gaming equipment and improvements in leaseholds, financing arrangements with customers, and investments in technology and other long-term assets. During the three months ended September 30, 2014, we completed the acquisition of Dragonplay for total initial consideration of \$51.3 million (see Note 2 to the unaudited condensed consolidated financial statements, *Business Combinations*), net of cash acquired of \$34.9 million, purchased long-term assets of \$3.2 million, provided development financing to customers of \$5.0 million, and utilized \$77.2 million in escrow for the acquisition of Dragonplay which was included in restricted cash. During the three months ended September 30, 2014 and 2013, we made capital expenditures of \$5.9 million and \$5.2 million, respectively, and we received payments from development financing notes receivable of \$1.5 million and \$1.4 million, respectively.

Cash utilized for financing activities is primarily for the payment of principal on our debt, the payment of debt issuance costs, and the repurchase of shares of our common stock. During the three months ended September 30, 2014, we made payments on our long-term debt of \$49.6 million and repurchased \$27.5 million of our common stock (including restricted stock forfeitures to satisfy tax withholding). During the three months ended September 30, 2013, we made payments on our long-term debt of \$50.7 million and paid \$1.4 million in debt issuance costs.

Cash provided by financing activities is primarily from proceeds from the exercise of stock options and purchases of stock under our 2008 Employee Stock Purchase Plan (the 2008 ESPP), borrowings under our Revolving Credit Facility or long-term debt, and excess tax benefits of stock option exercises. During the three months ended September 30, 2014 and 2013, we received proceeds of \$4.1 million and \$5.6 million, respectively, from the exercise of employee stock options or from participation in the 2008 ESPP. In addition, during the three months ended September 30, 2014, we received proceeds from our Revolving Credit Facility of \$5.0 million.

**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 2014 Form 10-K. There were no material changes to those policies during the three months ended September 30, 2014.

**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 September 30, 2014, we had total debt outstanding of approximately \$1.881 billion which consisted primarily of \$1.146 billion in term loans and \$735 million of borrowing under our Revolving Credit Facility.

We have reduced our exposure to market interest rate risk because the variable interest rate on the majority of Term Loan A was effectively converted to a fixed rate as a result of the floating-to-fixed interest rate swaps entered into in June 2011, and discussed in Note 6 to the unaudited condensed consolidated financial statements, *Long-Term Debt*. As of September 30, 2014, the interest rate on the Revolving Credit Facility was 2.15%, the interest rate on our Term Loan A was approximately 3.51% and the interest rate on our Term Loan B was 4.25%, after giving effect to our interest rate swap(s), if applicable. We estimate a hypothetical decline of 100 bps in applicable interest rates would have an immaterial impact on our business because we continue to manage this exposure with derivative financial instruments.

*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 September 30, 2014 and 2013, we recognized foreign currency exchange rate losses of approximately \$0.4 million and \$1.0 million, respectively. We estimate that a hypothetical 10% strengthening (or weakening) of the U.S. dollar for fiscal 2015 would have an immaterial impact on our business because we manage this exposure with derivative financial instruments.

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 loss of \$30.0 million as of September 30, 2014 due primarily to our significant foreign assets from our recent Acquisitions.

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 September 30, 2014.

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 September 30, 2014**

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 September 30, 2014 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 10 to the unaudited condensed consolidated financial statements, *Commitments and Contingencies*, which is incorporated by reference in response to this item.

**ITEM 1A. RISK FACTORS**

The Company is 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 2014 Form 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**

The Company's Board of Directors has historically approved a variety of share repurchase programs 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.

On April 24, 2013, the Company's Board of Directors approved a \$300 million share repurchase program which replaced the existing repurchase program at the time of approval. The Company's quarterly share repurchases under the \$300 million share repurchase program, excluding treasury shares acquired in non-cash transactions related to forfeited stock awards and shares exchanged for options exercised, are set forth in the table below.

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 Yet Be Purchased Under the Plans or Programs
				\$ 102,553,558
July 1 - July 31, 2014	386,726	\$ 61.06	386,726	\$ 78,941,476
August 1 - August 31, 2014		\$		\$ 78,941,476
September 1 - September 30, 2014		\$		\$ 78,941,476
Total	386,726	\$ 61.06	386,726	

Table of Contents

**ITEM 6. EXHIBITS**

<b>Exhibits</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification of Chief Financial Officer, pursuant to Securities Exchange Act Rule 13a-14(a).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.
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 Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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: October 31, 2014

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,  
Secretary and Treasurer  
(Principal Financial and Accounting Officer)