BALLY TECHNOLOGIES, INC.
Form 10-Q
May 09, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended March 31, 2011**

**OR**

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

**For the transition period from to**

**Commission File Number 001-31558**

# BALLY TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

| **NEVADA** | **88-0104066** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**6601 S. Bermuda Rd.**

**Las Vegas, Nevada 89119**

(Address of principal executive offices)

**(702) 584-7700**

(Registrant s telephone number, including area code)

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

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

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

| Large Accelerated Filer x | Accelerated Filer o |
|---|---|
| Non-Accelerated Filer o<br>(do not check if a smaller reporting company) | Smaller Reporting Company o |

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

The number of shares of Common Stock, $0.10 par value, outstanding as of May 3, 2011, was 53,072,000 which do not include 7,215,000 shares held in treasury.

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**PART I**

**ITEM 1. FINANCIAL STATEMENTS**

**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

| | March 31, 2011 | June 30, 2010 |
|---|---|---|
| | (in 000s, except share amounts) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 77,872 | $ 145,089 |
| Restricted cash | 7,973 | 8,303 |
| Accounts and notes receivable, net of allowances for doubtful accounts of $9,262 and $9,974 | 216,344 | 207,365 |
| Inventories | 64,511 | 42,806 |
| Prepaid and refundable income tax | 13,104 | 7,783 |
| Deferred income tax assets | 34,703 | 35,973 |
| Deferred cost of revenue | 13,638 | 14,568 |
| Prepaid assets | 11,616 | 11,172 |
| Other current assets | 6,196 | 3,350 |
| Total current assets | 445,957 | 476,409 |
| Restricted long-term investments | 11,603 | 13,075 |
| Long-term accounts and notes receivable, net of allowances for doubtful accounts of $5,586 and $5,169 | 45,448 | 30,163 |
| Property, plant and equipment, net of accumulated depreciation of $52,475 and $47,714 | 33,132 | 32,094 |
| Leased gaming equipment, net of accumulated depreciation of $171,375 and $153,780 | 90,464 | 82,357 |
| Goodwill | 161,982 | 161,153 |
| Intangible assets, net | 36,361 | 34,048 |
| Deferred income tax assets | 25,464 | 29,980 |
| Income tax receivable | 8,519 | 8,688 |
| Long-term deferred cost of revenue | 25,054 | 30,958 |
| Other assets, net | 17,463 | 14,251 |
| Total assets | $ 901,447 | $ 913,176 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 32,551 | $ 23,775 |
| Accrued and other liabilities | 44,365 | 45,662 |
| Customer deposits | 5,231 | 10,185 |
| Jackpot liabilities | 11,190 | 11,531 |
| Deferred revenue | 33,255 | 33,875 |
| Income tax payable | 3,783 | 6,982 |
| Current maturities of long-term debt | 45,162 | 42,543 |
| Total current liabilities | 175,537 | 174,553 |
| Long-term debt, net of current maturities | 118,649 | 131,250 |
| Long-term deferred revenue | 33,325 | 40,236 |
| Other income tax liability | 9,252 | 13,646 |
| Other liabilities | 8,572 | 9,299 |

| | | | | |
|---|---|---|---|---|
| Total liabilities | | 345,335 | | 368,984 |
| Commitments and contingencies (Note 9) | | | | |
| Stockholders equity: | | | | |
| Special stock, 10,000,000 shares authorized: Series E, $100 liquidation value; 115 shares issued and outstanding | | 12 | | 12 |
| Common stock, $.10 par value; 100,000,000 shares authorized; 60,097,000 and 59,495,000 shares issued and 52,883,000 and 54,392,000 outstanding | | 5,993 | | 5,943 |
| Treasury stock at cost, 7,214,000 and 5,103,000 shares | | (235,299) | | (157,053) |
| Additional paid-in capital | | 409,691 | | 392,853 |
| Accumulated other comprehensive loss | | (1,879) | | (3,044) |
| Retained earnings | | 375,907 | | 303,100 |
| Total Bally Technologies, Inc. stockholders equity | | 554,425 | | 541,811 |
| Noncontrolling interests | | 1,687 | | 2,381 |
| Total stockholders equity | | 556,112 | | 544,192 |
| Total liabilities and stockholders equity | $ | 901,447 | $ | 913,176 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (in 000s, except per share amounts) | | | |
| Revenues: | | | | |
| Gaming equipment and systems | $ 110,909 | $ 120,917 | $ 308,136 | $ 373,333 |
| Gaming operations | 80,032 | 69,723 | 236,339 | 209,610 |
| | 190,941 | 190,640 | 544,475 | 582,943 |
| Costs and expenses: | | | | |
| Cost of gaming equipment and systems (1) | 47,275 | 46,590 | 127,262 | 150,765 |
| Cost of gaming operations | 20,906 | 19,865 | 65,820 | 59,854 |
| Selling, general and administrative | 57,562 | 52,545 | 164,361 | 151,462 |
| Research and development costs | 22,088 | 20,279 | 64,832 | 59,321 |
| Impairment charges | | 11,379 | | 11,379 |
| Depreciation and amortization | 5,208 | 4,910 | 14,579 | 14,442 |
| | 153,039 | 155,568 | 436,854 | 447,223 |
| Operating income | 37,902 | 35,072 | 107,621 | 135,720 |
| Other income (expense): | | | | |
| Interest income | 1,276 | 944 | 3,616 | 2,268 |
| Interest expense | (2,855) | (3,069) | (8,885) | (9,607) |
| Other, net | 1,106 | (955) | 2,630 | (1,897) |
| Income from continuing operations before income taxes | 37,429 | 31,992 | 104,982 | 126,484 |
| Income tax expense | (13,651) | (11,262) | (32,283) | (43,973) |
| Income from continuing operations | 23,778 | 20,730 | 72,699 | 82,511 |
| Discontinued operations: | | | | |
| Income from discontinued operations, net of tax | | 2,363 | | 5,542 |
| Loss on disposal of discontinued operations, net of tax | | | (403) | |
| Income (loss) from discontinued operations, net of tax | | 2,363 | (403) | 5,542 |
| Net income | 23,778 | 23,093 | 72,296 | 88,053 |
| Less net income (loss) attributable to noncontrolling interests | 12 | 534 | (511) | 1,617 |
| Net income attributable to Bally Technologies, Inc. | $ 23,766 | $ 22,559 | $ 72,807 | $ 86,436 |
| Basic earnings per share attributable to Bally Technologies, Inc.: | | | | |
| Income from continuing operations. | $ 0.45 | $ 0.37 | $ 1.38 | $ 1.50 |
| Discontinued operations. | | 0.04 | | 0.09 |
| Loss on sale of discontinued operations. | | | (0.01) | |
| Basic earnings per share | $ 0.45 | $ 0.41 | $ 1.37 | $ 1.59 |
| | | | | |
| Diluted earnings per share attributable to Bally Technologies, Inc.: | | | | |
| Income from continuing operations | $ 0.43 | $ 0.36 | $ 1.31 | $ 1.42 |
| Discontinued operations | | 0.03 | | 0.08 |
| Loss on sale of discontinued operations | | | (0.01) | |
| Diluted earnings per share | $ 0.43 | $ 0.39 | $ 1.30 | $ 1.50 |
| Weighted average shares outstanding: | | | | |
| Basic | 52,923 | 54,771 | 53,311 | 54,517 |
| Diluted | 55,527 | 57,716 | 55,849 | 57,715 |
| Amounts attributable to Bally Technologies, Inc.: | | | | |
| Income from continuing operations, net of tax | $ 23,766 | $ 20,577 | $ 73,210 | $ 81,778 |
| Income from discontinued operations, net of tax | | 1,982 | | 4,658 |

| | | | | |
|---|---|---|---|---|
| Loss on sale of discontinued operations, net of tax | | | (403) | |
| Net income | $ 23,766 | $ 22,559 | $ 72,807 | $ 86,436 |

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

See accompanying notes to unaudited condensed consolidated financial statements.

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**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010**

| | Common Stock Shares | Common Stock Dollars | Series E Special Stock | Treasury Stock | Additional Paid-In Capital (in 000s) | Accumulated Other Comprehensive Income (Loss) ( OCI ) | Retained Earnings | Noncontrolling Interests | Total Stockholders Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balances at June 30, 2009 | 57,091 | $ 5,703 | $ 12 | $ (64,727) | $ 330,465 | $ (770) | $ 165,623 | $ 2,443 | $ 438,749 |
| Net income from continuing operations, net of tax | | | | | | | 81,778 | 733 | 82,511 |
| Net income from discontinued operations, net of tax | | | | | | | 4,658 | 884 | 5,542 |
| Foreign currency translation adjustment | | | | | | 846 | | | 846 |
| Unrealized loss on derivative financial instruments, net of tax | | | | | | (1,651) | | | (1,651) |
| Total comprehensive income | | | | | | | | | $ 87,248 |
| Distributions to noncontrolling interests | | | | | | | | (1,298) | (1,298) |
| Issuance and receipt of restricted stock, ESPP shares, stock options and related tax and tax benefit | 1,930 | 189 | | (524) | 37,713 | | | | 37,378 |
| Purchase of common stock for treasury | | | | (44,219) | | | | | (44,219) |
| Shares issued upon exercise of warrants | 39 | 1 | | | (1) | | | | |
| Share-based compensation | | | | | 10,600 | | | | 10,600 |
| Balances at March 31, 2010 | 59,060 | $ 5,893 | $ 12 | $ (109,470) | $ 378,777 | $ (1,575) | $ 252,059 | $ 2,762 | $ 528,458 |
| | | | | | | | | | |
| Balances at June 30, 2010 | 59,495 | $ 5,943 | $ 12 | $ (157,053) | $ 392,853 | $ (3,044) | $ 303,100 | $ 2,381 | $ 544,192 |
| Net income from continuing operations, net of tax | | | | | | | 73,210 | (511) | 72,699 |
| Loss on sale of discontinued operations, net of tax | | | | | | | (403) | | (403) |
| Foreign currency translation adjustment | | | | | | 843 | | | 843 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Unrealized gain on derivative financial instruments, net of tax | | | | | | 322 | | | 322 |
| Total comprehensive income | | | | | | | | | $ 73,461 |
| Distributions to noncontrolling interests | | | | | | | | (183) | (183) |
| Issuance and receipt of restricted stock, ESPP shares, stock options and related tax and tax benefit | 602 | 50 | | (2,534) | 7,238 | | | | 4,754 |
| Purchase of common stock for treasury | | | | (75,712) | | | | | (75,712) |
| Share-based compensation | | | | | 9,600 | | | | 9,600 |
| Balances at March 31, 2011 | 60,097 | $ 5,993 | $ 12 | $ (235,299) | $ 409,691 | $ (1,879) | $ 375,907 | $ 1,687 | $ 556,112 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Nine Months Ended March 31, 2011 | 2010 |
|---|---|---|
| | (in 000s) | |
| Cash flows from operating activities: | | |
| Net income | $ 72,296 | $ 88,053 |
| Adjustments to net income to net cash provided by operating activities: | | |
| Income from discontinued operations, net of tax | | (5,542) |
| Loss on sale of discontinued operations, net of tax | 403 | |
| Impairment charges | | 11,379 |
| Depreciation and amortization | 55,483 | 55,438 |
| Share-based compensation | 9,600 | 10,502 |
| Amortization of debt issuance costs | 2,931 | 2,108 |
| Income tax (benefit) expense | 1,393 | (8,023) |
| Provision for doubtful accounts | 4,361 | 2,781 |
| Inventory write-downs | 2,224 | 1,531 |
| Excess tax benefit of stock option exercises | (1,578) | (12,400) |
| Other | (3,197) | 2,500 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (22,828) | (62,855) |
| Inventories | (76,038) | (22,734) |
| Prepaid and refundable income tax and income tax payable | (7,862) | 19,429 |
| Other current assets | (1,705) | 3,000 |
| Accounts payable | 8,576 | 2,323 |
| Accrued liabilities, customer deposits and jackpot liabilities | (7,072) | (7,909) |
| Deferred revenue and deferred cost of revenue | (698) | (9,723) |
| Net cash provided by operating activities | 36,289 | 69,858 |
| | | |
| Cash flows from investing activities: | | |
| Capital expenditures | (9,528) | (6,792) |
| Restricted cash and investments | 1,802 | 1,657 |
| Financing arrangements with customers | (9,940) | (15,750) |
| Additions to other long-term assets | (5,748) | (4,784) |
| Net cash used in investing activities | (23,414) | (25,669) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from revolving credit facility | 21,149 | |
| Capitalized debt issuance costs | (158) | |
| Reduction of long-term debt | (31,272) | (26,578) |
| Distributions to noncontrolling interests | (183) | (535) |
| Purchase of treasury stock | (78,246) | (44,743) |
| Excess tax benefit of stock option exercises | 1,578 | 12,400 |
| Proceeds from exercise of stock options and employee stock purchases | 5,870 | 24,826 |
| Net cash used in financing activities | (81,262) | (34,630) |
| | | |
| Effect of exchange rate changes on cash | 1,573 | 746 |
| | | |
| Net cash provided by (used in) operating activities of discontinued operations | (403) | 8,412 |
| Net cash used in investing activities of discontinued operations | | (718) |
| Net cash used in financing activities of discontinued operations | | (763) |

| | | | | |
|---|---|---|---|---|
| Decrease in cash and cash equivalents of discontinued operations | | | | 2,871 |
| | | (403) | | 9,802 |
| Cash and cash equivalents: | | | | |
| Increase (decrease) for period | | (67,217) | | 20,107 |
| Balance, beginning of period | | 145,089 | | 55,886 |
| Balance, end of period | $ | 77,872 | $ | 75,993 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED SUPPLEMENTAL CASH FLOW INFORMATION**

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

| | Nine Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | (in 000s) | | | |
| Cash paid for interest | $ | 8,879 | $ | 9,226 |
| Cash paid for income taxes, net of refunds | | 35,531 | | 28,317 |
| | | | | |
| Non-cash investing and financing transactions: | | | | |
| Transfer of inventory to leased gaming equipment (1) | $ | 63,065 | $ | 33,315 |
| Reclassify property, plant and equipment to inventory (1) | | 12,847 | | 3,947 |
| Acquisition of Bally trademark | | | | 7,500 |
| Accrual of capital expenditures | | 372 | | 1,214 |

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(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 inventories under cash used in operating activities in the 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 consolidated statement of cash flows. The Company has one process to procure raw materials for the assembly of both inventory and leased gaming equipment. The materials requisition planning process considers the number of devices the Company expects to build for sale and for use in its gaming operations division during a particular period, but it does not separately earmark purchases for leased gaming equipment. Without such an earmarking process, the Company is unable to determine whether the parts used to construct leased gaming equipment during a particular period came from inventory on hand at the beginning of the period or was constructed from inventory procured during the period of deployment, thus requiring the expenditure of cash.

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**BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

*Principles of presentation and consolidation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information and, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ), include all adjustments necessary to fairly present the Company s consolidated financial position, results of operations and cash flows for each period presented. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations. The results of operations for an interim period are not necessarily indicative of the results that may be expected for any other interim period or the year as a whole. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2010. References to specific U.S. GAAP within this report cite topics within the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ).

All intercompany accounts and transactions have been eliminated in consolidation.

*Discontinued Operations*

The Company was the general partner of Rainbow Casino Vicksburg Partnership ( RCVP ), which operated the Rainbow Casino, a dockside riverboat casino in Vicksburg, Mississippi. On April 5, 2010, the Company entered into a definitive purchase agreement to sell the Rainbow Casino which closed on June 8, 2010. The Company s Casino Operations have been classified as discontinued operations in the accompanying financial statements. See Note 3 to unaudited condensed consolidated financial statements, *Discontinued Operations*.

*Use of estimates*

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

*Fair value of financial instruments*

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

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

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- Level 1: quoted prices in active markets for identical assets or liabilities;

- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

- Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company transacts business in various foreign currencies and has international sales and expenses denominated in foreign currencies, subjecting the Company to foreign currency risk. The Company may enter into foreign currency forward contracts, generally with maturities of twelve months or less, to hedge recognized foreign currency assets and liabilities to reduce the risk that earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. The gains or losses resulting from changes in the fair value of these forward contracts, which are not designated as accounting hedges, are reported in other income (expense) in the unaudited condensed consolidated statements of operations, and generally offset the gains and losses associated with the underlying foreign-currency-denominated balances, which are also reported in other income (expense). As of March 31, 2011, total outstanding contracts were $13.7 million, or the notional equivalent of 10 million in Euro.

The Company may use interest rate derivatives to manage the interest expense generated by variable rate debt. The Company s cash flow hedge related to a variable debt instrument and outstanding foreign currency derivatives used to hedge foreign currency balances are measured at fair value on a recurring basis, and the balances as of March 31, 2011 and June 30, 2010 (which is included in accrued and other liabilities in the unaudited condensed consolidated balance sheets) were as follows:

| | Fair Value Measurements Using Input Type | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| | | **(in 000s)** | |
| **As of March 31, 2011:** | | | |
| Liability: | | | |
| Foreign currency derivative financing instrument | $ | $ 277 | $ |
| Interest rate derivative financial instrument | $ | $ 2,203 | $ |
| | | | |
| **As of June 30, 2010:** | | | |
| Liability: | | | |
| Interest rate derivative financial instrument | $ | $ 2,698 | $ |

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

*Accounting for Derivative Instruments and Hedging Activity*

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

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

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

| Derivative in Cash Flow Hedging Relationship | Amount of Loss Recognized in OCI on Derivative (Effective Portion) Three Months Ended March 31, 2010 | Nine Months Ended March 31, 2010 | Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion) (in 000s) | Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended March 31, 2010 | Nine Months Ended March 31, 2010 |
|---|---|---|---|---|---|
| Interest rate swap agreement | $ (1,892) | $ (4,690) | Interest expense | $ (784) | $ (2,287) |

| Non-Designated Derivative | Amount of Loss Recognized in Other Income (Expense) Three Months Ended March 31, 2011 | Nine Months Ended March 31, 2011 | Three Months Ended March 31, 2010 | Nine Months Ended March 31, 2010 |
|---|---|---|---|---|
| Foreign Currency Forward Contract | $ (277) | $ (277) | $ | $ |

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

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

Trade receivables with contract terms greater than one year relate to the sale of gaming equipment and, to a lesser extent, systems transactions that include software as a major component of the sale, and are generally collateralized by the related equipment sold, although the value of such equipment, if repossessed, may be less than the receivable balance outstanding. Sales-type leasing arrangements relate to gaming equipment and include options to purchase the equipment at the end of the lease term at established prices. These customers typically have a long-standing credit history with the Company. Revenue from these lease arrangements is less than 2% of total year-to-date revenue for the Company.

The Company has also provided development financing to certain customers in the form of notes receivable with repayment terms of three to ten years. These notes may also include accelerated payment terms based upon a percentage of net-win from gaming devices sold or leased to these customers. The Company monitors credit quality and impairment based upon a review of customer payment history and financial condition.

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The Company evaluates the credit quality of its receivables 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, the Company utilizes historic collection experience for the most recent twelve month period, where applicable, to establish an allowance for doubtful accounts receivable. Receivables are written off only after the Company has exhausted all of its collection efforts.

The Company has one portfolio segment, the casino industry customer, and four classes of receivables including its trade receivables with a contract term less than one year, trade receivables with a contract term greater than one year, sales-type leasing arrangements, or lease receivables, and notes receivable, which are primarily for developmental financing loans. As of March 31, 2011, the Company s accounts and notes receivable and related allowances were as follows:

| | Accounts and Notes Receivable as of March 31, 2011 | | |
|---|---|---|---|
| | Ending Balance | Ending Balance Individually Evaluated for Impairment | Ending Balance Collectively Evaluated for Impairment |
| | (in 000s) | | |
| Contract term less than one year: | | | |
| Trade receivables, current | $ 143,032 | 1,481 | 141,551 |
| | | | |
| Contract term greater than one year: | | | |
| Trade receivables, current | 70,068 | 2,955 | 67,113 |
| Trade receivables, noncurrent | 18,446 | | 18,446 |
| | 88,514 | 2,955 | 85,559 |
| | | | |
| Lease receivables, current | 9,339 | 9,339 | |
| Lease receivables, noncurrent | 13,735 | 13,735 | |
| | 23,074 | 23,074 | |
| | | | |
| Notes receivable, current | 3,167 | 3,167 | |
| Notes receivable, noncurrent | 18,853 | 18,853 | |
| | 22,020 | 22,020 | |
| | | | |
| Total current | 225,606 | 16,942 | 208,664 |
| Total noncurrent | 51,034 | 32,588 | 18,446 |
| Total | $ 276,640 | 49,530 | 227,110 |

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| | Allowance for Doubtful Accounts | | | | | | |
|---|---|---|---|---|---|---|---|
| | Beginning Balance as of December 31, 2010 | Charge-offs | Recoveries | Provision (in 000s) | Ending Balance as of March 31, 2011 | Ending Balance Individually Evaluated for Impairment | Ending Balance Collectively Evaluated for Impairment |
| Contract term less than one year: | | | | | | | |
| Trade receivables, current | $ (5,857) | $ 1,448 | $ 145 | $ (877) | $ (5,141) | $ (1,481) | $ (3,660) |
| | | | | | | | |
| Contract term greater than one year: | | | | | | | |
| Trade receivables, current | (3,329) | 945 | 53 | (1,790) | (4,121) | (2,955) | (1,166) |
| Trade receivables, noncurrent | (498) | 81 | | | (417) | | (417) |
| | (3,827) | 1,026 | 53 | (1,790) | (4,538) | (2,955) | (1,583) |
| | | | | | | | |
| Lease receivables, current | | | | | | | |
| Lease receivables, noncurrent | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| Notes receivable, current | | | | | | | |
| Notes receivable, noncurrent | (5,169) | | | | (5,169) | (5,169) | |
| | (5,169) | | | | (5,169) | (5,169) | |
| | | | | | | | |
| Total current | (9,186) | 2,393 | 198 | (2,667) | (9,262) | (4,436) | (4,826) |
| Total noncurrent | (5,667) | 81 | | | (5,586) | (5,169) | (417) |
| Total | $ (14,853) | $ 2,474 | $ 198 | $ (2,667) | $ (14,848) | $ (9,605) | $ (5,243) |

The Company accrues interest, if applicable, on its receivables per the terms of the agreement. Interest is not accrued on delinquent accounts that the Company has determined and specifically identified as not collectible. The Company s recorded investment in receivables on nonaccrual status as of March 31, 2011, excluding trade accounts receivable with a contract term less than one year, is as follows:

| | Total |
|---|---|
| Trade receivables | $ 2,955 |
| Lease receivables | |
| Notes receivables | 5,169 |
| Total | $ 8,124 |

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. Collection experience is the primary indicator management utilizes to monitor the credit quality of its receivables. The Company does not segregate its accounts and notes receivable by credit quality indicators. The Company monitors the credit quality of receivables based upon past due aging information and historic collection experience. Receivables are classified as past due if a scheduled payment is not received within terms. Past due accounts receivable are monitored closely to expedite payments and to record necessary allowances.

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The following summarizes the aging of past due receivables, excluding trade accounts receivable with a contract term less than one year, as of March 31, 2011:

| | 1 to 90 Days Past Due | 91 to 180 Days Past Due | 181 + Days Past Due | Total Past Due | Current | Total Receivable | Recorded Investment 90 Days and Accruing |
|---|---|---|---|---|---|---|---|
| Trade receivables | $ 9,559 | $ 3,523 | $ 4,043 | $ 17,125 | $ 71,389 | $ 88,514 | $ |
| Lease receivables | | | | | 23,074 | 23,074 | |
| Notes receivable | 380 | 371 | 1,081 | 1,832 | 20,188 | 22,020 | |
| Total | $ 9,939 | $ 3,894 | $ 5,124 | $ 18,957 | $ 114,651 | $ 133,608 | $ |

The Company s notes receivable are reviewed quarterly, at a minimum, for impairment. The customer s solvency, collection experience, legal and regulatory environment and other financial information may indicate that the loan is impaired. As of March 31, 2011, the only Company loan that was impaired was to a customer in Alabama. In fiscal 2010, the legality of the charitable bingo market in Alabama was questioned and several operators in the region closed and the Company recognized an impairment charge on the notes receivable. No further interest is accrued once a loan is impaired. The Company s only impaired loan as of March 31, 2011 relates to one note with an allowance recorded, as follows:

| | Impaired Loans as of March 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| Note Receivable | $ 5,169 | $ 5,000 | $ (5,169) | $ 5,169 | $ 169 |

*Inventories*

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

| | March 31, 2011 | June 30, 2010 |
|---|---|---|
| | (in 000s) | |
| Raw materials | $ 48,298 | $ 34,221 |
| Work-in-process | 2,191 | 1,101 |
| Finished goods | 14,022 | 7,484 |
| Total | $ 64,511 | $ 42,806 |

*Revenue recognition*

Our revenue recognition policy is to record revenue when all of the following criteria have been satisfied:

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

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

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

Effective July 1, 2009, the Company adopted new accounting guidance related to revenue recognition for multiple deliverable arrangements and certain revenue arrangements that include software elements. The Company elected to adopt this guidance prior to the required effective date using the prospective method. Accordingly, this guidance was applied to all new or materially modified revenue arrangements entered into since the start of the Company s fiscal year of adoption, which was July 1, 2009.

Prior to the adoption of the new revenue recognition guidance, gaming equipment and systems revenue was recognized in accordance with software revenue recognition guidance. The new guidance amended the scope of software revenue recognition to exclude all tangible products containing both software and nonsoftware components that function together to deliver the product s essential functionality. As a result of applying the new guidance, certain products that were previously accounted for under the scope of software revenue recognition guidance are no longer accounted for as software.

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

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

As the combination of game content software and the tangible gaming device function together to deliver the product s essential functionality, revenue from the sale of gaming devices is recognized under general revenue recognition guidance. Prior to July 1, 2009, gaming devices were recognized under software revenue recognition guidance. Game content conversion kits are considered software deliverables and are recognized in accordance with software revenue recognition guidance.

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

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

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

Systems-based hardware includes embedded software that is essential to the functionality of the hardware. Accordingly, revenue related to all systems-based hardware sales and related maintenance and product support fees are recognized under general revenue recognition guidance. Prior to July 1, 2009, systems-based hardware was recognized under software revenue recognition guidance. Revenue from the sale of systems-based hardware is generally recognized upon delivery when title and risk of loss have passed to the customer and all other revenue recognition criteria are met. However, in the case of arrangements involving a systems installation, revenue on the systems-based hardware is generally not recognized until the system has been installed and the customer has accepted the system.

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. Software maintenance and product support is recognized on a straight-line basis over the term of the support period.

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

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

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

At the inception of a multiple element arrangement, fees under the arrangement are allocated to all units of accounting based on their relative selling price. 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.

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

In allocating arrangement fees to separate units of accounting, the Company uses VSOE for all products which have been sold on a stand-alone basis. As TPE is generally not available, the Company uses ESP for products that are not sold on a stand-alone basis and for recently introduced products that are sold on a stand-alone basis but for which a history of stand-alone sales has not yet been developed. Following these guidelines, the Company uses either VSOE or ESP for gaming devices, system-based hardware products, maintenance and product support fees associated with perpetual licenses and professional services; and ESP for perpetual and time-based software licenses and maintenance and product support fees associated with time-based licenses.

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*Other recently adopted accounting pronouncements*

In July 2010, the FASB issued new accounting guidance to address concerns about the credit quality of financing receivables and the related allowance for credit losses. The guidance is intended to provide additional information to assist financial statement users in assessing an entity s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The new disclosures included information at disaggregated levels, including the nature of the credit risk and how it is analyzed in arriving at the allowance for credit losses, a roll-forward schedule of and reasons for changes in the allowance, credit quality indicators, aging of past due accounts, the nature and extent of modifications, and significant purchases or sales. The Company adopted the new guidance as of December 31, 2010.

*Recently issued accounting pronouncements not yet adopted*

In April 2010, the FASB issued new accounting guidance related to accruals for casino jackpot liabilities. Specifically, the guidance clarifies that an entity should not accrue jackpot liabilities, or portions thereof, before a jackpot is won if the entity can avoid paying the jackpot. Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. The guidance applies to both base and progressive jackpots. The new guidance is effective for fiscal years beginning on or after December 15, 2010. The new guidance will be applied by recording a cumulative-effect adjustment to opening retained earnings in the period of adoption. The Company expects to adopt the guidance in fiscal year 2012 and does not expect the guidance to have a significant impact on its consolidated results of operations, financial position and cash flows. The only expected impact will be on the cumulative-effect adjustment to the opening retained earnings balance.

In April 2011, the FASB issued new accounting guidance related to troubled debt restructuring. The guidance clarifies which loan modifications constitute troubled debt restructurings to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosures of troubled debt restructurings. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011. The Company expects to adopt the guidance in fiscal year 2012 and its initial impact, if any, is expected to only be in its disclosures of troubled debt restructurings.

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**2. EARNINGS PER SHARE**

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

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (in 000s, except per share amounts) | | | |
| Amounts attributable to Bally Technologies, Inc.: | | | | |
| Income from continuing operations, net of tax | $ 23,766 | $ 20,577 | $ 73,210 | $ 81,778 |
| Income from discontinued operations, net of tax | | 1,982 | | 4,658 |
| Loss on sale of discontinued operations, net of tax | | | (403) | |
| Net income | $ 23,766 | $ 22,559 | $ 72,807 | $ 86,436 |
| After tax interest expense on convertible debt | | | | 14 |
| Diluted earnings | $ 23,766 | $ 22,559 | $ 72,807 | $ 86,450 |
| | | | | |
| Weighted average common shares outstanding | 52,923 | 54,771 | 53,311 | 54,517 |
| Dilutive effect of: | | | | |
| Stock options, Restricted Stock Units ( RSU ) and restricted stock | 2,602 | 2,942 | 2,536 | 3,152 |
| Warrants | 2 | 3 | 2 | 17 |
| Convertible debt (1) | | | | 29 |
| Weighted average diluted shares outstanding | 55,527 | 57,716 | 55,849 | 57,715 |
| | | | | |
| Basic earnings per share attributable to Bally Technologies, Inc. | | | | |
| Income from continuing operations | $ 0.45 | $ 0.37 | $ 1.38 | $ 1.50 |
| Income from discontinued operations | | 0.04 | | 0.09 |
| Loss on sale of discontinued operations | | | (0.01) | |
| Basic earnings per share | $ 0.45 | $ 0.41 | $ 1.37 | $ 1.59 |
| | | | | |
| Diluted earnings per share attributable to Bally Technologies, Inc. | | | | |
| Income from continuing operations | $ 0.43 | $ 0.36 | $ 1.31 | $ 1.42 |
| Income from discontinued operations | | 0.03 | | 0.08 |
| Loss on sale of discontinued operations | | | (0.01) | |
| Diluted earnings per share | $ 0.43 | $ 0.39 | $ 1.30 | $ 1.50 |

(1) The Company has certain related party debt outstanding which was convertible into common stock at the Company s discretion. The related party debt was paid in full in December 2009.

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | (in 000s) | | | |
| Stock options, RSU and restricted stock | 624 | 426 | 644 | 349 |

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**3. DISCONTINUED OPERATIONS**

The Company owned and operated the Rainbow Casino, a dockside riverboat casino in Vicksburg, Mississippi, which was sold on June 8, 2010.

The following table summarizes income from discontinued operations for the three and nine months ended March 31, 2010:

| | Three Months Ended March 31, 2010 | Nine Months Ended March 31, 2010 |
|---|---|---|
| | (in 000s) | |
| Revenues: | | |
| Casino operations | $ 10,372 | $ 28,027 |
| Costs and expenses: | | |
| Direct cost of casino operations | 3,937 | 11,426 |
| Selling, general and administrative | 1,773 | 5,355 |
| Depreciation and amortization | 928 | 2,873 |
| | 6,638 | 19,654 |
| Operating income | 3,734 | 8,373 |
| Other income (expense): | | |
| Interest income | 1 | 7 |
| Other, net | (304) | (330) |
| Income from discontinued operations before income taxes | 3.431 | 8,050 |
| Income tax expense | (1,068) | (2,508) |
| Income from discontinued operations | 2,363 | 5,542 |
| Less income attributable to noncontrolling interests | 381 | 884 |
| Income from discontinued operations attributable to Bally Technologies, Inc. | $ 1,982 | $ 4,658 |

Per the terms of the sale agreement, the Company had certain post-closing adjustments during the three months ended September 30, 2010 which reduced its gain on the sale of the Rainbow Casino in fiscal 2010 by approximately $0.4 million, net of income taxes.

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## 4. GOODWILL AND INTANGIBLE ASSETS

Intangible assets consist of the following:

| | | March 31, 2011 | | | June 30, 2010 | | |
|---|---|---|---|---|---|---|---|
| | Useful Life (Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount (dollars in 000s) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Computer software | 3 - 9 | $ 36,328 | $ (31,150) | $ 5,178 | $ 35,652 | $ (28,395) | $ 7,257 |
| License rights | 3 - 5 | 4,398 | (2,644) | 1,754 | 3,624 | (2,048) | 1,576 |
| Trademarks | 5 | 2,203 | (2,203) | | 2,203 | (2,023) | 180 |
| Core technology | 5 - 8 | 22,763 | (13,167) | 9,596 | 22,763 | (10,346) | 12,417 |
| Contracts | 10 | 15,013 | (7,121) | 7,892 | 10,836 | (6,421) | 4,415 |
| Other intangibles | 3 - 7 | 5,460 | (1,019) | 4,441 | 1,702 | (999) | 703 |
| Total finite lived intangible assets | | $ 86,165 | $ (57,304) | $ 28,861 | $ 76,780 | $ (50,232) | $ 26,548 |
| Trademark | indefinite | 7,500 | | 7,500 | 7,500 | | 7,500 |
| Total | | $ 93,665 | $ (57,304) | $ 36,361 | $ 84,280 | $ (50,232) | $ 34,048 |

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

Total amortization expense related to finite lived intangible assets was $2.1 million and $2.6 million for the three months ended March 31, 2011 and 2010, respectively, which included computer software amortization expense of $0.7 million and $0.9 million for the three months ended March 31, 2011 and 2010, respectively. Total amortization expense related to finite lived intangible assets was $7.2 million and $7.6 million for the nine months ended March 31, 2011 and 2010, respectively, which included computer software amortization expense of $2.7 million and $3.2 million for the nine months ended March 31, 2011 and 2010, respectively.

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

| Year Ended June 30, | (in 000s) |
|---|---|
| 2010 (remaining three months of fiscal year) | $ 4,369 |
| 2011 | 10,025 |
| 2012 | 8,889 |
| 2013 | 2,888 |
| 2014 | 679 |
| Thereafter | 2,011 |
| Total | $ 28,861 |

All goodwill is associated with continuing operations. The changes in the carrying amount of goodwill for the nine months ended March 31, 2011, are as follows:

| | | (in 000s) |
|---|---|---|
| Balance at June 30, 2010 | $ | 161,153 |
| Foreign currency translation adjustment | | 829 |
| Balance at March 31, 2011 | $ | 161,982 |

No impairment charges for goodwill and intangible assets were necessary for the three and nine months ended March 31, 2011 and 2010.

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**5. LONG-TERM DEBT**

Long-term debt consists of the following:

| | March 31, 2011 | June 30, 2010 |
|---|---|---|
| | (in 000s) | |
| Revolving credit facility | $ 21,149 | $ |
| Term loan facility | 142,500 | 173,750 |
| Other, generally unsecured | 162 | 43 |
| Long-term debt | 163,811 | 173,793 |
| Less current maturities | (45,162) | (42,543) |
| Long-term debt, net of current maturities | $ 118,649 | $ 131,250 |

As of March 31, 2011, the Company had a $225.0 million term loan and a $150.0 million revolving credit facility, of which $75.0 million matures in September 2012 and $75.0 million matures in March 2014 (collectively, the Credit Facility ). On April 15, 2011, the Company entered into an amended and restated credit agreement (see Note 11 to the unaudited condensed consolidated financial statements, *Subsequent Events*).

During the nine months ended March 31, 2011, the Company borrowed $21.1 million (EURO converted into U.S. dollars) under the revolving credit facility. As of March 31, 2011, there was approximately $128.9 million of undrawn availability under the revolving credit facility. Availability under the revolving credit facility is reduced to the extent of borrowings, net of repayments, and outstanding letters of credit.

The interest rate on the Credit Facility is subject to a leverage-based pricing grid. If the leverage ratio, as defined under the Credit Facility, is greater than 2.5, the interest rate will be LIBOR plus a margin of 3.25%; if the leverage ratio is between 2.0 and 2.5, the interest rate will be LIBOR plus a margin of 3.00%; if the leverage ratio is between 1.5 and 2.0, the interest rate will be LIBOR plus a margin of 2.75%; if the leverage ratio is between 1.0 and 1.5, the interest rate will be LIBOR plus a margin of 2.50%; and if the leverage ratio is below 1.0, the interest rate will be LIBOR plus a margin of 2.25%. As of March 31, 2011 and June 30, 2010, the Company s leverage ratio was below 1.0.

The term loan required quarterly principal reductions of $8.75 million through September 30, 2010 and of $11.25 million thereafter through September 2012, with an additional balloon payment due at maturity in September 2012. The Credit Facility is collateralized by substantially all of the Company s domestic property and is guaranteed by each of the Company s domestic subsidiaries, excluding any noncontrolling interests, and is secured by a pledge agreement.

The fair value of long-term debt is estimated by discounting expected cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. As of March 31, 2011 and June 30, 2010, the fair value of long-term debt approximated the carrying value.

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

The financial covenants under the Credit Facility consist of a leverage ratio and a fixed charges coverage ratio. The leverage ratio is computed as total debt outstanding at the end of the quarter divided by the trailing twelve months Earnings Before Interest, Taxes, Depreciation and Amortization ( EBITDA ), excluding certain cash and non-cash charges. The fixed charges coverage ratio is computed as EBITDA, adjusted for both the trailing twelve months capital expenditures and cash taxes paid, divided by the trailing twelve months interest charges plus all payments of principal made during the previous twelve months.

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

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*Interest Rate Swap Agreement*

In December 2008, the Company entered into a floating-to-fixed interest rate swap agreement with an original notional value of $218.8 million and a maturity date of September 26, 2012. This interest rate swap serves to fix the floating LIBOR based debt under the term loan to fixed rate debt at an interest rate of 1.89% plus the applicable margin to manage the risk exposure to interest rate fluctuations.

The Company has documented and designated this interest rate swap as a cash flow hedge. Based on the assessment of effectiveness using statistical regression, the Company determined that the interest rate swap is effective. Effectiveness testing of the hedge relationship and measurement to quantify ineffectiveness is performed each fiscal quarter using the hypothetical derivative method. As the interest rate swap qualifies as a cash flow hedge, the Company adjusts the cash flow hedge on a quarterly basis to its fair value with a corresponding offset to accumulated OCI. The interest rate swap has been and is expected to remain highly effective for the life of the hedge. Effective amounts are reclassified to interest expense as the related hedged expense is incurred. Any ineffectiveness is reclassified from accumulated other comprehensive income to other income (expense). As of March 31, 2011, the Company had no ineffectiveness on its cash flow hedge. Amounts related to the swap expected to be reclassified from other comprehensive income to interest expense in the next twelve months total $1.9 million.

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

| Interest Rate Swaps | Balance Sheet Location | Fair Value (in 000s) | Location of Offsetting Balance |
|---|---|---|---|
| Cash flow hedge $142.5 million LIBOR based debt | Accrued and other liabilities | $ 2,203 | Accumulated other comprehensive income (loss) |

**6. SHARE-BASED COMPENSATION**

*Employee Stock Purchase Plan*

The 2008 Employee Stock Purchase Plan (the 2008 ESPP Plan ) provides that eligible employees are able to contribute up to 10% of their eligible earnings towards the quarterly purchase of the Company s common stock. The employee s purchase price is equal to 85% of the fair market value. During the nine months ended March 31, 2011 and 2010, employees purchased 51,570 shares and 40,671 shares of common stock for approximately $1.6 million and $1.4 million, respectively, under the 2008 ESPP Plan.

*Share-Based Award Plans*

Stock option activity as of and for the nine months ended March 31, 2011 is summarized below:

| | | Weighted Average | | |
|---|---|---|---|---|
| | Shares (in 000s) | Exercise Price (per share) | Remaining Contractual Term (years) | Aggregate Intrinsic Value (in 000s) |
| Balance outstanding as of June 30, 2010 | 5,061 | $ 21.14 | | $ 61,186 |
| Granted | 258 | 35.27 | | |
| Exercised | (261) | 17.46 | | |
| Forfeited or expired | (104) | 33.35 | | |
| Balance outstanding as of March 31, 2011 | 4,954 | $ 21.81 | 3.80 | $ 81,264 |
| Exercisable as of March 31, 2011 | 4,067 | $ 19.14 | 3.43 | $ 76,664 |

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Restricted stock and RSU activity as of and for the nine months ended March 31, 2011 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, 2010 | 329 | $ | 35.66 | 642 | $ | 18.27 |
| Granted | 153 | | 39.00 | 97 | | 41.07 |
| Released | (88) | | 34.25 | (124) | | 30.64 |
| Forfeited or expired | (66) | | 32.93 | | | |
| Balance outstanding as of March 31, 2011 | 328 | $ | 38.15 | 615 | $ | 19.36 |
| Vested as of March 31, 2011 | | | | 534 | $ | 16.04 |

*Share-Based Compensation*

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

| | Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| | | | | (in 000s) | | | | |
| Selling, general and administrative | $ | 2,250 | $ | 2,518 | $ | 7,132 | $ | 7,927 |
| Research and development costs | | 661 | | 856 | | 2,338 | | 2,452 |
| Cost of gaming equipment and systems and gaming operations | | 43 | | 47 | | 130 | | 123 |
| Share-based compensation expense before tax | | 2,954 | | 3,421 | | 9,600 | | 10,502 |
| Income tax benefit | | 1,034 | | 1,197 | | 3,360 | | 3,676 |
| Net share-based compensation expense | $ | 1,920 | $ | 2,224 | $ | 6,240 | $ | 6,826 |

Share-based compensation expense from discontinued operations before income tax was $98,000 for the nine months ended March 31, 2010.

As of March 31, 2011, there was $11.7 million of total unrecognized compensation expense related to the unvested portion of stock options which will be recognized over the subsequent 1.94 years. In addition, as of March 31, 2011, there was $13.2 million of total unrecognized compensation expense related to the unvested portion of restricted stock and RSUs which will be recognized over the subsequent 1.78 years.

**7. STOCKHOLDERS EQUITY, WARRANTS AND RIGHTS**

*Warrants*

The Company previously issued 100,000 stock purchase warrants in connection with a prior acquisition. The strike price of the warrant is $24.69 with a term of seven years. During the nine months ended March 31, 2011, 125 stock purchase warrants were exercised for cash. During the nine months ended March 31, 2010, 91,765 stock purchase warrants were exercised and converted into 38,619 shares of the Company s common stock. The exercises were cashless and net shares were issued for the difference between the strike price of the warrant and the market value of the Company s common stock upon exercise.

*Share Repurchase Plan*

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 6, 2011, the Company s Board of Directors increased the share repurchase plan amount (see Note 11 to the unaudited condensed consolidated financial statements, *Subsequent Events*).

During the nine months ended March 31, 2011 and 2010, the Company repurchased 2,044,215 shares and 1,116,451 shares of common stock for $75.7 million and $44.2 million, respectively, under the share repurchase plan.

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*Special Stock*

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

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

**8. INCOME TAXES**

The provision for income taxes for interim periods is based on the current estimate of the annual effective tax rate expected to be applicable for the full fiscal year and the impact of discrete items, if any, and is adjusted as necessary for quarterly events. The effective income tax rate was approximately 36.5% and 34.8% for the three months ended March 31, 2011 and 2010, respectively, and 30.8% and 34.5% for the nine months ended March 31, 2011 and 2010, respectively. The decrease in the year to date effective income tax rate is primarily attributable to discrete items related to the IRS settlement discussed below, the reinstatement of the federal research and development tax credit and deferred tax expense on the repatriation of earnings from our India subsidiary.

The Internal Revenue Service ( IRS ) commenced examination of the Company s United States federal income tax returns for 2003 through 2005 in the fourth quarter of fiscal 2006. Throughout the examination, the IRS has proposed, and management has agreed to, certain adjustments related to the open tax years that have been recorded in the income tax provision. In January 2009, the IRS completed its field examination of the open tax years and issued a Revenue Agent s Report. Also in January 2009, the Company paid $3.4 million in tax and $1.2 million in interest to the IRS to settle certain agreed adjustments. The Company filed a formal protest regarding certain unagreed adjustments and the case was assigned to the IRS Las Vegas Appeals Office in July 2009. In June 2010, the Company agreed to settle all remaining issues with the IRS. Formal closure of the case occurred in October 2010 and the Company has received a refund from the IRS of $2.3 million, including $0.6 million in interest.

In the second quarter of fiscal 2011, the Company was notified by the IRS that they will be examining the United States federal income tax returns for 2007 through 2009.

Changes to the balance of uncertain tax positions are as follows:

| | | March 31, 2011 |
|---|---|---|
| Balance, beginning of year | $ | 11,637 |
| Additions based on tax provisions related to current year | | 627 |
| Additions for tax positions of prior years | | 2,602 |
| Reductions for tax positions of prior years | | (6,584) |
| Settlements | | |
| Lapse of statute of limitations | | (484) |
| Foreign currency translation adjustment | | 32 |
| Balance, March 31, 2011 | $ | 7,830 |

As of March 31, 2011, the Company has $7.8 million related to uncertain tax positions, excluding related accrued interest and penalties, all of which, if recognized, would impact the effective tax rate. As of March 31, 2011, the Company has $1.2 million accrued for the payment of interest and penalties.

The Company s uncertain tax positions decreased $3.8 million in the nine months ended March 31, 2011 primarily due to the IRS settlement and other changes in uncertain tax positions.

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The Company does not believe total uncertain tax positions will change significantly during the next twelve months.

The Company files numerous consolidated and separate income tax returns in the United States and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to United States federal income tax examinations for years before fiscal 2006 and is no longer subject to state and local, or foreign income tax examinations for years before 2003.

**9. COMMITMENTS AND CONTINGENCIES**

***Litigation***

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

On October 16, 2010, WMS Gaming Inc. ( WMS ) filed a patent infringement lawsuit against the Company in the United States District Court for the District of Northern Illinois. The complaint asserts that several of the Company s products using iReel displays, including Cash Spin, Dragon Dynasty, Twin Tigers, and Sky Spirits, infringe two WMS patents, and seeks injunctive relief and unspecified damages. As part of its response, the Company has asserted counterclaims against WMS s Lord of the Rings and Star Trek games, for violation of the Company s patents. The Company is seeking damages and other relief against WMS, including claims that the WMS patents are invalid, unenforceable, and not infringed. It is anticipated trial will be set for early 2012.

In April 2006, International Game Technology ( IGT ) filed a patent infringement lawsuit against the Company in the United States District Court for the District of Delaware. The complaint asserted that the Company s Bally Power Bonusing products infringe patents held by IGT, and sought injunctive relief and damages in unspecified amounts. Of the nine patents and 200 claims originally filed in the case by IGT, all but three patents and eight claims were dismissed. On April 28, 2009, the District Court issued an order finding that the Company s Power Promotions, Power Bank, and SDS/CMP Power Winners products do not infringe IGT s patents. The court also found that the Company s ACSC Power Winners and ACSC Power Reward products infringe some patent claims asserted by IGT, but not others. Appeals by both parties have been filed. In the meantime, the Company has undertaken technical changes to ensure non-infringement for the two products partially in question. The Company does not believe that potential infringement damages, if any, would be material to its financial position as the revenues from these two products to date have not been material.

On December 7, 2004, IGT filed a patent infringement lawsuit against the Company in the United States District Court for the District of Nevada. The complaint asserted that the Company s wheel-based games, such as Monte, Carlo Lucky Wheel and Cash For Life , its games with a reel in the top box, such as Bonus Frenzy , and its iVIEW products infringed on patents held by IGT, and sought injunctive relief and damages in unspecified amounts. As part of the defense, the Company asserted counterclaims seeking damages and other relief against IGT, including claims that IGT s patents were invalid, unenforceable and not infringed, as well as several claims that IGT engaged in anti-competitive conduct in violation of state and federal antitrust laws. In October 2008, the court granted the Company s motions for summary judgment, ruling that IGT s two wheel patents and a touch-screen player-tracking patent were invalid; that even if the patents were valid, the Company s wheel-based games at issue would not infringe; and that certain of its iVIEW products do not infringe the two asserted player-tracking patents. The summary

judgment determinations were upheld by the Federal Circuit Court of Appeals. The District Court then granted summary judgment in favor of IGT on the remaining portion of the case regarding IGT s alleged inequitable conduct before the U.S. Patent and Trademark and in favor of Bally on IGT s remaining claim that Bally infringed an IGT player tracking patent. Appeals of these summary judgment decisions have been filed.

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

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## 10. SEGMENT AND GEOGRAPHICAL INFORMATION

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

The following is a summary of revenues and gross margin:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (in 000s) | | | |
| Revenues: | | | | |
| Gaming Equipment and Systems | | | | |
| Gaming Equipment | $ 63,679 | $ 69,393 | $ 173,852 | $ 210,187 |
| Gaming Operations | 80,032 | 69,723 | 236,339 | 209,610 |
| Systems | 47,230 | 51,524 | 134,284 | 163,146 |
| Total revenues | $ 190,941 | $ 190,640 | $ 544,475 | $ 582,943 |
| | | | | |
| Gross Margin(1): | | | | |
| Gaming Equipment and Systems | | | | |
| Gaming Equipment | $ 27,257 | $ 35,545 | $ 81,197 | $ 106,457 |
| Gaming Operations | 59,126 | 49,858 | 170,519 | 149,756 |
| Systems | 36,377 | 38,782 | 99,677 | 116,111 |
| Total gross margin | $ 122,760 | $ 124,185 | $ 351,393 | $ 372,324 |

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

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (in 000s) | | | |
| Revenues: | | | | |
| United States and Canada | $ 155,274 | $ 149,799 | $ 449,764 | $ 466,849 |
| International | 35,667 | 40,841 | 94,711 | 116,094 |
| Total revenues | $ 190,941 | $ 190,640 | $ 544,475 | $ 582,943 |

| Operating income: | | | | |
|---|---|---|---|---|
| United States and Canada | $ 34,557 | $ 25,716 | $ 96,644 | $ 106,148 |
| International | 3,345 | 9,356 | 10,977 | 29,572 |
| Total operating income | $ 37,902 | $ 35,072 | $ 107,621 | $ 135,720 |

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**11. SUBSEQUENT EVENTS**

On April 6, 2011, the Company s Board of Directors increased the share-repurchase program to an amount equal to $550 million minus the amount repurchased in the tender offer described below.

On April 8, 2011, the Company launched a modified Dutch auction tender offer to purchase up to $400 million in value of its common stock at a price not greater than $40.00 nor less than $34.50 per share. The tender offer expired on May 6, 2011. Based on the preliminary count of the depositary for the tender offer, a total of 9,942,039 shares of the Company s common stock were properly tendered and not properly withdrawn at or below the final purchase price of $40 per share for an aggregate cost of approximately $397.7 million, including 3,307,958 shares that were tendered through notice of guaranteed delivery. The Company will fund the share purchases in the tender offer with funds from the new credit facility described below.

On April 15, 2011, the Company entered into an amended and restated credit agreement (collectively, the New Credit Facility ), that provides for a $700 million senior secured credit facility comprised of a $300 million, five-year term loan and a $400 million, five-year revolving credit facility. Loans under the New Credit Facility will bear interest at a variable rate of interest equal to either the applicable base rate or LIBOR, plus in each case an interest margin determined by the Company s leverage ratio, with a range of base rate margins from zero basis points to 100 basis points and a range of LIBOR margins from 100 basis points to 200 basis points.

The effectiveness of the New Credit Facility is subject to the satisfaction of a number of conditions, including, without limitation, the repurchase of certain of the Company s equity interests in connection with the tender offer, the execution and delivery of guaranty and collateral documents and the repayment and termination of the Company s prior credit facility.

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

We begin this section with a summary of our key operating business divisions and our results as of and for the three and nine month periods ended March 31, 2011. The overview is followed by a detailed analysis of our results of operations and our financial condition and liquidity as of and for the three and nine months ended March 31, 2011 and 2010. References to we, our, us, or the Company refer to Bally Technologies, Inc. and its subsidiaries.

**Forward Looking Statements**

Certain statements made or incorporated by reference in this Quarterly Report on Form 10-Q, in our other filings with the Securities and Exchange Commission ( SEC ), in our press releases and in statements made by or with the approval of authorized personnel constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and are subject to the safe harbor created thereby. Forward looking statements reflect intent, belief or current expectations with respect to, among other things, future events and financial trends affecting us. Forward looking statements are typically identified by words such as believes, estimates, expects, anticipates, plans, should, would an 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, 2010 (the 2010 10-K ), as well as other factors such as the impact of competition, the impact of any prolonged downturn in the economy or the financial markets, our ability to service debt, product development, foreign operations, dependence on key personnel, the ability to integrate future acquisitions, regulation by gaming authorities, the outcome of pending litigation matters, gaming taxes, market risks and the potential adverse effects to our financial condition, results of operations or prospects.

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

**Business Overview**

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

central determination markets and specialized system-based hardware products.

We previously owned and operated the Rainbow Casino, a dockside riverboat casino in Vicksburg, Mississippi. On April 5, 2010, we entered into a definitive purchase agreement to sell the Rainbow Casino. The sale closed on June 8, 2010. As a result of the sale, our Casino Operations were classified as discontinued operations in the accompanying financial statements. See Note 3 to the unaudited condensed consolidated financial statements, *Discontinued Operations*.

We derive our revenue from the following:

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

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We review certain financial measures in assessing our financial condition and operating performance not only in connection with creating our forecasts and in making comparisons to financial results from prior periods, but also in making comparisons to our competitors financial results and our internal plans. We focus on fluctuations in revenue, cost and gross margin and also pay close attention to changes in our consolidated operating income, net income, diluted earnings per share, adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, including asset charges and share-based compensation), cash flows from operations and free cash flow (cash flows from operating activities less capital expenditures) as they are key indicators of our success. We also measure changes in selling, general and administrative ( SG&A ) expenses as a percent of revenue, which indicate management s ability to control costs, as well as changes in research and development ( R&D ) costs as a percent of revenue, which demonstrate investment in technology and product development. The measures listed above are not a comprehensive list of all factors considered by us in assessing our financial condition and operating performance, and we may consider other individual measures as required by trends and discrete events arising in a specific period, but they are the key indicators.

We are currently operating in a challenging economic environment. The combination of economic uncertainty, lower demand for replacement products and reduced opportunities from new or expanded markets has negatively impacted our consolidated results. The gaming sector was and continues to be negatively impacted by lower consumer spending and limited resources available to fund capital projects. As a result of the challenging economic environment, we have provided select customers a greater amount of payment terms for periods up to one year, and in some cases for periods up to three years. We expect to continue to extended credit for these longer periods during fiscal year 2011.

Our operating results for the nine months ended March 31, 2011 reflect the continued tough economic conditions currently facing the gaming industry, which has resulted in a prolonged slow domestic replacement cycle and a lower number of casino openings and expansions, combined with lower system revenues resulting from the timing of implementations and longer than expected customer decision making cycles.

Game sales revenues were $63.7 million and $69.4 million for the three months ended March 31, 2011 and 2010, respectively, and $173.9 million and $210.2 million for the nine months ended March 31, 2011 and 2010, respectively. The decrease in revenue reflects the lower number of new casino openings and expansions in fiscal 2011 combined with a slow domestic replacement cycle. During the three months ended March 31, 2011 and 2010, we sold 2,433 and 2,449 new gaming devices in the United States and Canada, respectively, of which 2,222 and 2,248 were replacement units, respectively. During the nine months ended March 31, 2011 and 2010, we sold 6,738 and 8,209 new gaming devices in the United States and Canada, respectively, of which 5,785 and 6,730 were replacement units, respectively. The domestic replacement cycle for gaming machines continues to be slow, but we are cautiously optimistic that gaming operators gaming machine spending will begin to improve in late calendar 2011. In calendar 2010, we released our new Pro Series cabinets with ALPHA 2 technology which are state of the art for the industry with regards to ergonomics, processing power, display technology, input device, operating system, sound and serviceability. This new platform allowed us to develop new, more compelling games and also facilitates our game download solution for customers. The majority of our Pro Series cabinets features our latest innovation, iDeck , an LCD (liquid crystal display) touch screen that replaces the traditional button panel and OLED s (Organic light-emitting diodes). iDeck is the first of its kind multi-touch fully programmable and downloadable button panel which offers opportunity to add more interaction to the game-play experience with mystery bonus events, virtual shooting galleries and skill-based bonus games.

Systems revenues were $47.3 million and $51.5 million for the three months ended March 31, 2011 and 2010, respectively, and $134.3 million and $163.1 million for the nine months ended March 31, 2011 and 2010, respectively. Systems revenues were negatively impacted by the timing of certain customer decisions regarding system purchases which has impacted implementation timelines during fiscal 2011. Maintenance revenue increased 9% and 12%, respectively, in the three and nine months ended March 31, 2011, when compared to the comparable prior year periods, as a result of an increasing installed base of customers utilizing our systems.

Despite the prolonged, challenging economic conditions and the absence of revenue from the charitable bingo market in Alabama, gaming operations revenues continued to increase at $80.0 million and $69.7 million during the three months ended March 31, 2011 and 2010,

respectively, and $236.3 million and $209.6 million in the nine months ended March 31, 2011 and 2010, respectively.

Gaming Operations revenues were stronger period over period due primarily to the continued performance of existing and new premium game titles which increased rental and participation revenue. Fiscal 2011 results benefitted from our growing product offerings and innovations, such as U-Spin, our first in a series of play mechanics utilizing gesture control, and the continued success of our Cash Spin game, Digital Tower Series platforms and Hot Shot family of games.

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We have also introduced the first dual wheel game with our Vegas Hits product in addition to the release of Cash Wizard, our first Alpha 2 premium game with a spinning wheel bonus. In the fourth quarter of fiscal 2011, we plan to release our first Hammer Head products to our wide-area progressive game lineup and will also introduce a follow-up to Cash Spin called Hot Spin where the player can choose the symbol and thereby the frequency of the wheel feature. Additionally, we will introduce our Betty Boop Love Meter, a wide-area progressive game, in the fourth quarter of fiscal 2011. We continue to focus our efforts on the introduction of new and innovative games and cabinets both for our spinning-reel and video platforms.

International revenues were $35.7 million and $40.8 million for the three months ended March 31, 2011 and 2010, respectively, and $94.7 million and $116.1 million for the nine months ended March 31, 2011 and 2010, respectively. International revenues decreased in the three months ended March 31, 2011, when compared to the same period last year, due primarily to a decrease in sales in Singapore and Latin America, which was slightly offset by increases in sales in Macau and South America during the same period. International revenues decreased in the nine months ended March 31, 2011, when compared to the same period last year, due primarily to decreases in sales in sales in Mexico, South Africa, Asia and Europe, which was slightly offset by increases in sales in South America during the same period. We continue to focus on international expansion opportunities and began selling our games in Australia in the fourth quarter of fiscal 2011. In addition, we are testing with the Italian regulatory authorities and are hopeful that we will be approved to place gaming machines in the market in the first half of fiscal 2012.

Several potential gaming market developments have been fueled by the economic downturn that we believe will benefit us in the long term. Domestically, we are focused on planned new jurisdictional opportunities in Ohio, Illinois, Kansas, Iowa, Maine, Maryland, Florida, New York and California, and the potential for new markets including Colorado, Massachusetts, Minnesota, South Dakota, Texas and West Virginia. The breadth and timing of such opportunities remain uncertain due to the legislative process in these jurisdictions, as well as the difficult credit environment facing certain of our customers and the risk of the gaming industry impact of continued economic uncertainty. We are also engaged in expanding our position in Australia and Mexico, as it moves to Class III gaming, and, in the future, we also expect to expand our presence in the new Italian VLT market and potentially Eastern Europe, Africa, Brazil and Greece. Further, as we continue to grow and gain market share in Asia, opportunities are anticipated to arise in that region which would enable us to further expand internationally.

Net cash provided by operating activities from continuing operations was $36.3 million and $69.9 million for the nine months ended March 31, 2011 and 2010, respectively. Cash flows provided by operating activities from continuing operations in the current period were negatively impacted primarily by a reduction in net income and transfers of finished goods to leased gaming equipment, when compared to the same period last year. In addition, during the nine months ended March 31, 2010, we recorded impairment charges of $11.4 million related to our exit from the charitable bingo gaming market in Alabama.

In the nine months ended March 31, 2011, we made payments on our term loan of $31.3 million, loaned $9.9 million under a financing arrangement with a new customer in Italy, borrowed $21.1 million under our revolving line of credit, and purchased 2.0 million shares of our common stock for $75.7 million under our share repurchase plan.

Current and long-term accounts and notes receivable increased $9.0 million and $15.3 million, respectively, during the nine months ended March 31, 2011. Long-term accounts and notes receivable increased due primarily to an increase in loans to finance gaming opportunities to a customer in Italy during the current period. In addition, our days sales outstanding ( DSO s ) increased to 118 days from 99 days at June 30, 2010 due primarily to an increase in extended payment terms over the last twelve months coupled with a decrease in revenue during the same period.

Management continuously monitors and reviews its SG&A expenses in comparison to revenues. SG&A expenses increased to $57.6 million and $164.4 million during the three and nine months ended March 31, 2011 from $52.5 million and $151.5 million, respectively, in the same periods last year. SG&A expenses increased as a percentage of revenue at 30% during both the three and nine months ended March 31, 2011, when compared to 28% and 26% during the three and nine months ended March 31, 2010, respectively. The increase in SG&A expense as a percentage of revenue during fiscal 2011, when compared to fiscal 2010, was partially due to the decrease in revenue during the same period given the majority of the Company s SG&A expenditures are fixed. For the three and nine months ended March 31, 2011, when compared to the same periods last year, SG&A expenditures increased primarily for payroll and related expenses, advertising and promotions, legal fees, travel and entertainment, and bad debt expense, which were offset by decreases in outside services and temporary labor during the same periods. The increase in SG&A expenditures for legal fees and travel and entertainment reflect our investment in potential new markets.

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**Results of Operations**

The summary financial results and operating statistics are as follows:

| | Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | % | 2010 | % | 2011 | % | 2010 | % |
| | | | | (dollars in millions) | | | | |
| Revenues: | | | | | | | | |
| Gaming Equipment | $ 63.7 | 33% | $ 69.4 | 36% | $ 173.9 | 32% | $ 210.2 | 36% |
| Gaming Operations | 80.0 | 42% | 69.7 | 37% | 236.3 | 43% | 209.6 | 36% |
| Systems | 47.3 | 25% | 51.5 | 27% | 134.3 | 25% | 163.1 | 28% |
| Total revenues | $ 191.0 | 100% | $ 190.6 | 100% | $ 544.5 | 100% | $ 582.9 | 100% |
| | | | | | | | | |
| Gross Margin: | | | | | | | | |
| Gaming Equipment(1) | $ 27.3 | 43% | $ 35.5 | 51% | $ 81.2 | 47% | $ 106.4 | 51% |
| Gaming Operations | 59.1 | 74% | 49.9 | 72% | 170.5 | 72% | 149.8 | 71% |
| Systems(1) | 36.4 | 77% | 38.8 | 75% | 99.7 | 74% | 116.1 | 71% |
| Total gross margin | $ 122.8 | 64% | $ 124.2 | 65% | $ 351.4 | 65% | $ 372.3 | 64% |
| | | | | | | | | |
| Selling, general and administrative | $ 57.6 | 30% | $ 52.5 | 28% | $ 164.4 | 30% | $ 151.5 | 26% |
| Research and development costs | 22.1 | 12% | 20.3 | 11% | 64.8 | 12% | 59.3 | 10% |
| Impairment charges | | % | 11.4 | 6% | | % | 11.4 | 2% |
| Depreciation and amortization | 5.2 | 3% | 4.9 | 2% | 14.6 | 3% | 14.4 | 3% |
| Operating income | $ 37.9 | 20% | $ 35.1 | 18% | $ 107.6 | 20% | $ 135.7 | 23% |
| Income from continuing operations | $ 23.8 | 12% | $ 20.7 | 11% | $ 72.7 | 13% | $ 82.5 | 14% |

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Operating Statistics | | | | |
| New gaming devices | 3,417 | 4,571 | 9,708 | 13,504 |
| New unit Average Selling Price ( ASP ) | $ 15,556 | $ 13,979 | $ 15,482 | $ 14,134 |

| | | |
|---|---|---|
| End of period installed base: | | |
| Gaming monitoring units installed base | 400,000 | 381,000 |
| Systems managed cashless games | 327,000 | 318,000 |
| | | |
| Wide-area progressive | 888 | 985 |
| Local-area progressive | 22 | 25 |
| Total linked progressive systems | 910 | 1,010 |

| | | |
|---|---|---|
| Rental and daily-fee games | 13,833 | 12,514 |
| Lottery systems | 8,263 | 7,774 |
| Centrally determined systems | 51,482 | 50,245 |

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**Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010**

Total revenues increased slightly by $0.4 million in the three months ended March 31, 2011, when compared to the same period last year, as a result of the following:

*Gaming Equipment Revenue*. Gaming Equipment revenue decreased $5.7 million, or 8%, to approximately $63.7 million primarily as a result of a 25% decrease in new gaming device sales to 3,417 units in the three months ended March 31, 2011, when compared to 4,571 units in the same period last year. New gaming device sales decreased due to a challenging economy, lower international sales and fewer new casino openings and expansions during this period as compared to the same period last year. ASP of new gaming devices increased 11% to $15,556 in the three months ended March 31, 2011 when compared to $13,979 in the same period last year primarily as a result of the mix of products sold including sales of the new Pro Series cabinets with Alpha 2 technology in the current quarter.

*Gaming Equipment Gross Margin*. Gaming Equipment gross margin decreased to 43% in the three months ended March 31, 2011 from 51% in the same period last year due primarily to the write-down of older technology platforms, an increase in freight and packaging costs, the increased cost of our new Pro Series cabinets, and the sale of premium used games with a higher cost of goods sold during the current period.

*Gaming Operations Revenue*. Gaming Operations revenue increased $10.3 million, or 15%, to approximately $80.0 million in the three months ended March 31, 2011, when compared to the same period last year, primarily as a result of an increase in participation and rental revenue and the placements of higher yield premium products, including Cash Spin and Vegas Hits, the performance of our lottery systems installed base, as well as the continued success of our Digital Tower Series and Hot Shot family of games, during the same period. The improvement in participation and rental revenue was primarily due to increases in our end of period installed base of games, that included an 11% increase in the installed games base of rental and daily fee games from 12,514 games as of March 31, 2010 to 13,833 games as of March 31, 2011.

*Gaming Operations Gross Margin*. Gross margin increased to 74% in the three months ended March 31, 2011 from 72%, in the same period last year, primarily as a result of the increases in participation and rental revenue which had little associated variable costs, and favorable jackpot expense.

*Systems Revenue*. Systems revenue decreased $4.2 million, or 8%, to approximately $47.3 million in the three months ended March 31, 2011 when compared to the same period last year, due primarily to the timing of certain customer decisions regarding system purchases which impacted the closing of deals and implementation timelines. Maintenance revenue increased $1.3 million in the three months ended March 31, 2011, when compared to the same period last year, as a result of the increased installed base of customers utilizing our systems.

*Systems Gross Margin.* Systems gross margin increased to 77% in the three months ended March 31, 2011 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 coupled with an increase in maintenance revenue during the current period. Specifically, hardware sales were 34% of Systems revenues, and software and services sales were 31%, as compared to 36% for hardware and 35% for software and services in the same period last year.

*Selling, General and Administrative Expenses.* SG&A expenses increased $5.1 million, or 10%, in the three months ended March 31, 2011, when compared to the same period last year, due primarily to increases in payroll and related expenses, legal expense and bad debt expense. Payroll and related expenses increased due primarily to a 6% increase in headcount in the comparative periods, and legal expense increased due primarily to costs associated with recent litigation and fees related to our entrance into new international markets. Bad debt expense increased due primarily to increases in accounts and leases receivable during the comparable periods. Year-to-date bad debt as a percentage of revenue continues to remain under 1%.

*Research and Development Costs*. R&D costs increased $1.8 million, or 9%, in the three months ended March 31, 2011, when compared to the same period last year, due primarily to an increase in employees and an increase in hardware development costs. The increased costs are attributable to our continued focus on our technology assets due to the competitive landscape that requires a continual investment in future generations of gaming products and systems.

*Impairment Charges*. Impairment charges of $11.4 million were recorded during the three months ended March 31, 2010 due to the circumstances in Alabama where the legality of charitable bingo gaming was under challenge by the state s governor and there were several lawsuits pending before the State s Supreme Court that negatively affected charitable gaming in the state.

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*Depreciation and Amortization Expense*. Depreciation and amortization expense increased slightly by $0.3 million, or 6%, in the three months ended March 31, 2011, when compared to same period last year.

**Nine Months Ended March 31, 2011 Compared to Nine Months Ended March 31, 2010**

Total revenues decreased $38.4 million, or 7%, in the nine months ended March 31, 2011, when compared to the same period last year, as a result of the following:

*Gaming Equipment Revenue*. Gaming Equipment revenue decreased $36.3 million, or 17%, to approximately $173.9 million primarily as a result of a 28% decrease in new gaming device sales to 9,708 units in the nine months ended March 31, 2011, when compared to 13,504 units in the same period last year. New gaming device sales decreased due to a challenging economy, lower international sales and a continued sluggish North America replacement market and fewer new casino openings and expansions during this period as compared to the same period last year. ASP of new gaming devices increased 10% to $15,482 in the nine months ended March 31, 2011 when compared to $14,134 in the same period last year primarily as a result of the mix of products sold including the sales of new Pro Series cabinets with Alpha 2 technology in the current fiscal year.

*Gaming Equipment Gross Margin*. Gaming Equipment gross margin decreased to 47% in the nine months ended March 31, 2011 from 51% in the same period last year due primarily to the write-down of older technology platforms, an increase in freight and packaging costs, the increased cost of our new Pro Series cabinets, and the sale of premium used games with a higher cost of goods sold during the current period.

*Gaming Operations Revenue*. Gaming Operations revenue increased $26.7 million, or 13%, to approximately $236.3 million in the nine months ended March 31, 2011, when compared to the same period last year, primarily as a result of an increase in participation and rental revenue and the placements of higher yield premium products, including Cash Spin and Vegas Hits, the performance of our lottery systems installed base, as well as the continued success of our Digital Tower Series and Hot Shot family of games, during the same period. The improvement in participation and rental revenue was primarily due to increases in our end of period installed base of games, that included an 11% increase in the installed games base of rental and daily fee games from 12,514 games as of March 31, 2010 to 13,833 games as of March 31, 2011.

*Gaming Operations Gross Margin*. Gross margin increased slightly to 72% in the nine months ended March 31, 2011 from 71%, in the same period last year.

*Systems Revenue*. Systems revenue decreased $28.8 million, or 18%, to approximately $134.3 million in the nine months ended March 31, 2011 when compared to the same period last year, due primarily to the timing of certain customer decisions regarding system purchases which impacted the closing of deals and implementation timelines. Maintenance revenue increased $5.0 million in the nine months ended March 31, 2011, when compared to the same period last year, as a result of the increased installed base of customers utilizing our systems.

*Systems Gross Margin.* Systems gross margin increased to 74% in the nine months ended March 31, 2011 from 71%, in the same period last year, primarily as a result of a change in the mix of products sold in the comparative periods coupled with an increase in maintenance revenue during the same period. Specifically, hardware sales were 37% of Systems revenues, and software and service sales were 27%, as compared to 39% for hardware and 34% for software and services in the same period last year.

*Selling, General and Administrative Expenses.* SG&A expenses increased $12.9 million, or 9%, in the nine months ended March 31, 2011, when compared to the same period last year, due primarily to increases in payroll and related expenses, advertising and promotional expense, legal fees, travel and entertainment expense and bad debt expense. Payroll and related expenses increased due primarily to a 6% increase in headcount in the comparative periods. Advertising and promotional expense increased due primarily to higher trade show expenditures and promotions for new products during the period. Legal fees increased due primarily to costs associated with recent litigation and fees related to our entrance into new international markets. In addition, in the nine months ended March 31, 2010, we received refunds for $1.1 million of fees related to previous legal matters. The increase in travel and entertainment expense was due primarily for travel associated with new business and the addition of new international locations. Bad debt expense increased due primarily to increases in accounts and leases receivable during the comparable periods. Bad debt as a percentage of revenue continues to remain under 1%.

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*Research and Development Costs*. R&D costs increased $5.5 million, or 9%, in the nine months ended March 31, 2011, when compared to the same period last year, due primarily to an increase in employees and an increase in hardware development costs. The increased costs are attributable to our continued focus on our technology assets due to the competitive landscape that requires a continual investment in future generations of gaming products and systems.

*Impairment Charges*. Impairment charges of $11.4 million were recorded during the nine months ended March 31, 2010 due to the circumstances in Alabama where the legality of charitable bingo gaming was under challenge by the state s governor and there were several lawsuits pending before the State s Supreme Court that negatively affected charitable gaming in the state.

*Depreciation and Amortization Expense*. Depreciation and amortization expense increased $0.2 million, or 1%, in the nine months ended March 31, 2011, when compared to same period last year.

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

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

| | Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| | (dollars in millions) | | | | | | | |
| Other income (expense) | | | | | | | | |
| Interest income | $ | 1.3 | $ | 0.9 | $ | 3.6 | $ | 2.3 |
| Interest expense | | (2.9) | | (3.1) | | (8.9) | | (9.6) |
| Other, net | | 1.1 | | (1.0) | | 2.6 | | (1.9) |
| Total other expense | $ | (0.5) | $ | (3.2) | $ | (2.7) | $ | (9.2) |
| | | | | | | | | |
| Income tax expense | $ | (13.7) | $ | (11.3) | $ | (32.3) | $ | (44.0) |
| Net loss (income) attributable to noncontrolling interests | $ | | $ | (0.5) | $ | 0.5 | $ | (1.6) |

**Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010**

*Other Income (Expense).* Other expense decreased $2.7 million in the three months ended March 31, 2011, when compared to the same period last year, due primarily to an increase in gains on foreign currency translations as a result of the weakening of the U.S. dollar during the same period. Interest expense decreased $0.2 million due primarily to a reduction in the principal balance on the term loan period over period.

*Income Tax Expense.* Income tax expense increased $2.4 million during the three months ended March 31, 2011, when compared to the same period last year, due primarily to higher pretax income in the current period. The effective income tax rate for continuing operations for the three

months ended March 31, 2011 and 2010 was 36.5% and 34.8%, respectively.

*Net income (loss) attributable to noncontrolling interests.* In the three months ended March 31, 2010, net income attributable to noncontrolling interests was due to earnings from unconsolidated subsidiaries, including the Rainbow Casino. See Note 3 to the unaudited condensed consolidated financial statements, *Discontinued Operations.*

**Nine Months Ended March 31, 2011 Compared to Nine Months Ended March 31, 2010**

*Other Income (Expense).* Other expense decreased $6.5 million in the nine months ended March 31, 2011, when compared to the same period last year, due primarily to an increase in gains on foreign currency translations as a result of the weakening of the U.S. dollar during the same period. Interest expense decreased $0.7 million due primarily to a reduction in the principal balance on the term loan and the interest rate period over period.

*Income Tax Expense.* Income tax expense decreased $11.7 million during the nine months ended March 31, 2011, when compared to the same period last year, due primarily to certain changes in our uncertain tax positions primarily resulting from settlement of the IRS examination of our 2003 to 2005 income tax returns, the reinstatement of the research and development tax credit and deferred tax expense on the repatriation of earnings from our India subsidiary. See Note 8 to the unaudited condensed consolidated financial statements, *Income Taxes*. The effective income tax rate for continuing operations for the nine months ended March 31, 2011 and 2010 was 30.8% and 34.5%, respectively.

*Net income (loss) attributable to noncontrolling interests.* In the nine months ended March 31, 2011, net loss attributable to noncontrolling interests was due to higher jackpot expense during the period. In the nine months ended March 31, 2010, net income attributable to noncontrolling interests was due to earnings from unconsolidated subsidiaries, including the Rainbow Casino. See Note 3 to the unaudited condensed consolidated financial statements, *Discontinued Operations.*

***Discontinued Operations***

On April 5, 2010, we entered into a definitive purchase agreement to sell the Rainbow Casino. Under the terms of the agreement, we received approximately $80.0 million in an all-cash transaction. The sale closed on June 8, 2010. We recognized a gain on the sale of Rainbow of approximately $22.1 million (net of approximately $12.2 million in income taxes) in the fourth quarter of fiscal 2010. Per the terms of the sale agreement, we incurred certain post-closing adjustments during fiscal 2011 which reduced our gain on the sale by approximately $0.4 million (net of approximately $0.2 million income taxes).

The results of operations of the Rainbow Casino for the three and nine months ended March 31, 2010 were classified as discontinued operations because we did not continue to receive significant cash flows from the Rainbow Casino after the sale. Rainbow s revenues, reported in discontinued operations for the three and nine months ended March 31, 2010, were $10.4 million and $28.0 million, respectively, and income from discontinued operations, net of income taxes, was $2.4 million and $5.5 million, respectively. See Note 3 to the unaudited condensed consolidated financial statements, *Discontinued Operations*

**Financial Condition and Liquidity**

***Working Capital***

| | March 31, 2011 | June 30, 2010 | Increase (decrease) Amount | % |
|---|---|---|---|---|
| | | (in 000s) | | |
| Cash and cash equivalents | $ 77,872 | $ 145,089 | $ (67,217) | (46)% |
| Total long-term debt, including current maturities | $ 163,811 | $ 173,793 | $ (9,982) | (6)% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total current assets | $ | 445,957 | $ | 476,409 | $ | (30,452) | (6)% |
| Total current liabilities | | 175,537 | | 174,553 | | 984 | 1% |
| Net working capital | $ | 270,420 | $ | 301,856 | $ | (31,436) | (10)% |

As of March 31, 2011 and June 30, 2010, we had $77.9 million and $145.1 million, respectively, in consolidated cash and cash equivalents.

Pursuant to various state gaming regulations, certain cash accounts are maintained to ensure availability of funds to pay wide-area progressive jackpot awards in installments rather than in one lump-sum. At March 31, 2011 and June 30, 2010, these accounts had an aggregate value of approximately $8.0 million and $8.3 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 $11.6 million and $13.1 million as of March 31, 2011 and June 30, 2010, respectively.

On March 31, 2011, the amount of cash and investments held by foreign subsidiaries was $17.4 million. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds.

Our net working capital decreased $31.4 million in the nine months ended March 31, 2011, when compared to June 30, 2010, and was primarily affected by a $67.2 million decrease in cash and cash equivalents due to primarily to the purchase of 2.0 million shares of common stock for approximately $75.7 million and by the following components:

- An increase of $21.7 million in inventories due primarily to the purchase of raw materials which increased in part due to acquisition of raw materials related to the new Pro Series cabinets and the build-up of inventory in our European location in preparation for the roll-out of products in Italy; and

- An increase of $2.6 million in current maturities of long-term debt due primarily to the increase in quarterly principal payments from $8.75 million to $11.25 million beginning in December 2010.

Current and long-term accounts and notes receivable increased $9.0 million and $15.3 million, respectively, during the nine months ended March 31, 2011. Long-term accounts and notes receivable increased due primarily to an increase in loans to finance gaming opportunities to a customer in Italy during the current period. In addition, our DSO s increased to 118 days from 99 days at June 30, 2010 due primarily to an increase in extended payment terms over the last twelve months coupled with a decrease in revenue during the same period.

We have a $225.0 million term loan and a $150.0 million revolving credit facility, of which $75.0 million matures in September 2012 and $75.0 million matures in March 2014 (collectively, the Credit Facility ). On April 15, 2011, the Company entered into an amended and restated credit agreement (see Note 11 to the unaudited condensed consolidated financial statements, *Subsequent Events*).

During the nine months ended March 31, 2011, we borrowed $21.1 million (EURO converted into U.S. dollars) under the revolving credit facility. As of March 31, 2011, there was approximately $128.9 million of undrawn availability under the revolving credit facility. Availability under the revolving credit facility was reduced to the extent of borrowings, net of repayments, and outstanding letters of credit.

The interest rate on the Credit Facility is subject to a leverage-based pricing grid. If the leverage ratio, as defined under the Credit Facility, is greater than 2.5, the interest rate will be LIBOR plus a margin of 3.25%; if the leverage ratio is between 2.0 and 2.5, the interest rate will be LIBOR plus a margin of 3.00%; if the leverage ratio is between 1.5 and 2.0, the interest rate will be LIBOR plus a margin of 2.75%; if the leverage ratio is between 1.0 and 1.5, the interest rate will be LIBOR plus a margin of 2.50%; and if the leverage ratio is below 1.0, the interest rate will be LIBOR plus a margin of 2.25%. As of March 31, 2011 and June 30, 2010, our leverage ratio was below 1.0.

The term loan required quarterly principal reductions of $8.75 million through September 30, 2010 and of $11.25 million thereafter through September 2012, with an additional balloon payment due at maturity in September 2012. The Credit Facility is collateralized by substantially all of our domestic property and is guaranteed by each of our domestic subsidiaries, excluding any noncontrolling interests, and is secured by a pledge agreement.

The fair value of long-term debt is estimated by discounting expected cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. As of March 31, 2011 and June 30, 2010, the fair value of long-term debt approximated the carrying value.

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

The financial covenants under the Credit Facility consist of a leverage ratio and a fixed charges coverage ratio. The leverage ratio is computed as total debt outstanding at the end of the quarter divided by the trailing twelve months Earnings Before Interest, Taxes, Depreciation and Amortization ( EBITDA ), excluding certain cash and non-cash charges. The fixed charges coverage ratio is computed as EBITDA, adjusted for both the trailing twelve months capital expenditures and cash taxes paid, divided by the trailing twelve months interest charges plus all payments of principal made during the previous twelve months.

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

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

At March 31, 2011, 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.

Cash flows from continuing operating activities are derived from Bally Gaming Equipment and Systems. Cash flows from discontinued operating activities, or Casino Operations, were derived from the operation of the Rainbow Casino. We utilize our cash to acquire materials for the manufacture of goods for resale, to pay payroll, interest, taxes and SG&A expenses and to fund R&D activities.

Cash flows provided by continuing operating activities were $36.3 million in the nine months ended March 31, 2011 as compared to $69.9 million in the same period last year, a $33.6 million decrease. Cash flows from operating activities of continuing operations for the nine months ended March 31, 2011 were negatively impacted primarily by a reduction in net income, when compared to the same period last year. Cash flows used in discontinued operating activities in the nine months ended March 31, 2011 were $0.4 million, while cash flows provided by discontinued operating activities were $8.4 million in the nine months ended March 31, 2010.

Cash utilized for investing activities from continuing operations is primarily for capital expenditures related to furniture, fixtures, office and gaming equipment and improvements in leaseholds, financing arrangements with customers and investments in technology and other long-term assets. During the nine months ended March 31, 2011 and 2010, we made capital expenditures of $9.5 million and $6.8 million, respectively. During the nine months ended March 31, 2011 and 2010, we provided $9.9 million and $15.8 million, respectively, in loans to finance gaming opportunities to separate customers. Cash utilized for investing activities from discontinued operations was $0.7 million during the nine months ended March 31, 2010 and was primarily for purchases of property, plant and equipment.

Cash utilized for financing activities from continuing operations is primarily for the payment of principal on our debt and the purchase of shares of our common stock. We made payments of $31.3 million and $26.6 million on our notes payable during the nine months ended March 31, 2011 and 2010, respectively. In addition, we purchased 2.0 million and 1.1 million shares of our common stock for $75.7 million and $44.2 million under our share repurchase plan during the nine months ended March 31, 2011 and 2010, respectively.

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, borrowings under our revolving credit facility, and excess tax benefits of stock option exercises. During the nine months ended March 31, 2011, employees exercised options for 261,208 shares of common stock for $4.3 million and purchased 51,570 shares of common stock for $1.6 million under our 2008 ESPP Plan. During the nine months ended March 31, 2010, employees exercised options for 1,734,342 shares of common stock for $23.4 million and purchased 40,671 shares of common stock for $1.4 million under our 2008 ESPP Plan. In addition, we borrowed $21.1 million (EURO converted into U.S. dollars) under our revolving credit facility during the current period. Cash used in financing activities from discontinued operations was $0.8 million for the nine months ended March 31, 2010.

**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 2010 10-K. There were no material changes to those policies during the nine months ended March 31, 2011.

**Other Recently Issued Accounting Pronouncements**

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Interest Rate Risk*

As of March 31, 2011, we had total debt outstanding of approximately $163.8 million which consisted primarily of a $142.5 million term loan and $21.1 million of borrowing under our revolving credit facility. During the year, the interest rate for the Credit Facility was subject to a leveraged based pricing grid. We have minimal exposure to market interest rate risk because the variable interest rate on the term loan was effectively converted to a fixed rate as a result of the floating-to-fixed interest rate swap entered into in December 2008 and discussed in Note 5 to the unaudited condensed consolidated financial statements, *Long-Term Debt*.

*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 and nine months ended March 31, 2011, we recognized foreign currency exchange rate gains of approximately $1.0 million and $2.3 million, respectively. During the three and nine months ended March 31, 2010, we recognized foreign currency exchange rate losses of approximately $1.0 million and $2.0 million, respectively. We estimate that a hypothetical 10% strengthening (or weakening) of the U.S. dollar for fiscal 2011 would have an immaterial impact on our business.

In addition, the net assets of these subsidiaries are exposed to foreign currency translation gains and losses which are included as a component of accumulated other comprehensive income in stockholders equity in our Unaudited Condensed Consolidated Balance Sheets. Such translation resulted in unrealized gains of $0.8 million as of March 31, 2011 and unrealized losses of $0.3 million as of June 30, 2010.

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 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, *Summary of Significant Policies (Fair value of financial instruments).*

During the nine months ended March 31, 2011, we borrowed $21.1 million (EURO converted into U.S. dollars) under our revolving credit facility.

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**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

Based on this evaluation our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2011.

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

**Changes in Internal Control Over Financial Reporting during the Quarter Ended March 31, 2011**

Although we update our internal controls as necessary to accommodate any modifications to our business processes and accounting procedures as part of our normal operations, there were no changes in our internal control over financial reporting that occurred in the three months ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II

### ITEM 1. LEGAL PROCEEDINGS

For a description of our legal proceedings, see Note 9 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 2010 10-K, to which there were no material changes during the period covered by this Quarterly Report on Form 10-Q.

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

On April 4, 2010, the Company s Board of Directors approved a new share repurchase plan under which, subject to price and market conditions, purchases of shares of common stock can be made from time to time in the open market or in private negotiated transactions using available cash, in an aggregate amount of up to $150 million. On April 6, 2011, the Company s Board of Directors increased the share repurchase plan amount (see Note 11 to the unaudited condensed consolidated financial statements, *Subsequent Events*).

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

| Period | Total Number of Shares (or Units) Purchased | | Average Price Paid Per Share (Per Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | | Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Be Purchased Under the Plans or Programs |
|---|---|---|---|---|---|---|
| | | | | | $ | 62,413,881 |
| January 1 - January 31, 2011 | 120,730 | $ | 41.41 | 120,730 | $ | 57,413,907 |
| February 1 - February 28, 2011 | 712,400 | $ | 38.80 | 712,400 | $ | 29,769,960 |
| March 1 March 31, 2011 | 64,900 | $ | 38.28 | 64,900 | $ | 27,285,325 |
| Total | 898,030 | $ | 39.12 | 898,030 | | |

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**ITEM 6. EXHIBITS**

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

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* Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BALLY TECHNOLOGIES, INC. Date: May 9, 2011

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

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