BALLY TECHNOLOGIES, INC.
Form 10-Q
February 03, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2009

OR

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

For the transition period from to

Commission File Number 001-31558

BALLY TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

6601 S. Bermuda Rd.

Las Vegas, Nevada 89119

(Address of principal executive offices)

(702) 584-7700

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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PART I

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2009	June 30, 2009
	(in 000s, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 71,315	$ 64,598
Restricted cash	7,587	9,076
Accounts and notes receivable, net of allowances for doubtful accounts of $9,165 and $8,939	212,778	174,698
Inventories	43,692	52,942
Prepaid and refundable income tax	31,416	43,756
Deferred income tax assets	38,800	36,114
Deferred cost of revenue	17,990	21,906
Prepaid assets	12,772	7,531
Other current assets	5,452	13,018
Total current assets	441,802	423,639
Restricted long-term investments	12,304	12,097
Long-term receivables	23,447	9,826
Property, plant and equipment, net of accumulated depreciation of $69,846 and $64,113	74,330	76,889
Leased gaming equipment, net of accumulated depreciation of $137,743 and $117,638	88,697	95,012
Goodwill	162,085	161,960
Intangible assets, net	36,721	32,198
Deferred income tax assets	15,380	15,373
Long-term deferred cost of revenue	35,997	41,615
Other assets, net	10,504	12,273
Total assets	$ 901,267	$ 880,882
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 21,328	$ 20,574
Accrued liabilities	37,066	47,405
Customer deposits	9,226	10,375
Jackpot liabilities	10,825	12,266
Deferred revenue	43,091	49,122
Income tax payable	2,005	2,971
Current maturities of long-term debt	37,547	35,337
Total current liabilities	161,088	178,050
Long-term debt, net of current maturities	153,750	173,750
Long-term deferred revenue	50,341	60,464
Other income tax liability	19,842	22,072
Other liabilities	8,418	7,797
Total liabilities	393,439	442,133
Commitments and contingencies (Note 9)		
Stockholders equity:		
Special stock, 10,000,000 shares authorized: Series E, $100 liquidation value; 115 shares issued and outstanding	12	12
Common stock, $.10 par value; 100,000,000 shares authorized; 58,606,000 and 57,091,000 shares issued and 55,028,000 and 54,312,000 outstanding	5,854	5,703

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

See accompanying notes to unaudited condensed consolidated financial statements.

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BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER S EQUITY

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes to unaudited condensed consolidated financial statements.

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BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED SUPPLEMENTAL CASH FLOW INFORMATION

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

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

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

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BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and reflect all adjustments, consisting of normal recurring adjustments, which management believes are necessary to fairly present the financial position, results of operations and cash flows of Bally Technologies, Inc. (Bally or the Company), a Nevada corporation, and its subsidiaries for the respective periods presented. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations. The results of operations for an interim period are not necessarily indicative of the results that may be expected for any other interim period or the year as a whole. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2009. References to specific U.S. GAAP within this report cite topics within the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

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

All intercompany accounts and transactions have been eliminated in consolidation.

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

Expense classification

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

Recently adopted accounting pronouncements - revenue recognition

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

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

- The delivered items have value to the customer on a standalone basis. The item or items have value on a standalone basis if they are sold separately by any vendor or the customer could resell the delivered item(s) on a standalone basis; and
- If the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the vendor.

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ASU No 2009-13 also eliminates the use of the residual method of allocation and requires, instead, that arrangement consideration be allocated, at the inception of the arrangement, to all deliverables based on their relative selling price (i.e., the relative selling price method). When applying the relative selling price method, a hierarchy is used for estimating the selling price based first on vendor-specific objective evidence (VSOE), then third-party evidence (TPE) and finally management s estimate of the selling price (ESP).

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

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

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

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

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

Other recently adopted accounting pronouncements

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

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

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

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

Fair value of financial instruments

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

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

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

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

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

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

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

At June 30, 2009, the derivative financial instrument was an asset valued at $255,000. The valuation techniques used to measure the fair value of the derivative financial instrument above in which the counterparties have high credit ratings, were derived from pricing models, such as discounted cash flow techniques, with all significant inputs derived from or corroborated by observable market data. The Company s discounted cash flow techniques use observable market inputs, such as LIBOR-based yield curves. See Note 4 to unaudited condensed consolidated financial statements, *Long-Term Debt*.

Accounting for Derivative Instruments and Hedging Activity

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

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

Fiscal 2010:

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

Fiscal 2009:

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

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Inventories

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

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

2. EARNINGS PER SHARE

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

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

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