BALLY TECHNOLOGIES, INC.
Form 10-Q
May 07, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission File Number 001-31558

BALLY TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

NEVADA	**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 (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 2, 2012, was 43,102,000 which do not include 19,739,000 shares held in treasury.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

Loss on sale of discontinued operations, net of tax								
Net income	$	29,967	$	23,766	$	74,627	$	72,807

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND 2011

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED SUPPLEMENTAL CASH FLOW INFORMATION

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

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

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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.

Table of Contents

BALLY TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of presentation and consolidation

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

All intercompany accounts and transactions have been eliminated in consolidation.

Discontinued Operations

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

Use of estimates

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

Fair value of financial instruments

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

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

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

Table of Contents

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

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

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

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

Accounting for Derivative Instruments and Hedging Activity

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

Table of Contents

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

Fiscal year 2012

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

Fiscal year 2011

Derivative in Cash Flow Hedging Relationship	Amount of Loss Recognized in OCI on Derivative (Effective Portion) 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)

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

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

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

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

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

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

Table of Contents

The Company s accounts and notes receivable were as follows:

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Impaired Loans

as of March 31, 2012

(in 000s)

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

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

Table of Contents

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

Inventories

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

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

Revenue recognition

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