

BALLY TECHNOLOGIES, INC.
Form 10-Q
February 10, 2014
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2013

OR

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

For the transition period from to

Commission File Number 001-31558

BALLY TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

88-0104066

(I.R.S. Employer Identification No.)

6601 S. Bermuda Rd.

Las Vegas, Nevada 89119

(Address of principal executive offices)

(702) 584-7700

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer
(do not check if a smaller reporting company)

Smaller Reporting Company

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

The number of shares of Common Stock, \$0.10 par value, outstanding as of February 5, 2014, was 39,108,000 which do not include 26,545,000 shares held in treasury.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of December 31, 2013 and June 30, 2013</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2013 and 2012</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended December 31, 2013 and 2012</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity for the Six Months Ended December 31, 2013 and 2012</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2013 and 2012</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>Item 4. Controls and Procedures</u>	41
<u>PART II. OTHER INFORMATION</u>	42
<u>Item 1. Legal Proceedings</u>	42
<u>Item 1A. Risk Factors</u>	42
<u>Item 6. Exhibits</u>	42
<u>SIGNATURES</u>	43

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

	December 31, 2013	June 30, 2013
	(in 000s, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 108,588	\$ 63,220
Restricted cash	13,895	12,939
Accounts and notes receivable, net of allowances for doubtful accounts of \$15,277 and \$14,813	280,900	248,497
Inventories	98,737	68,407
Prepaid and refundable income tax	45,800	21,845
Deferred income tax assets	49,286	38,305
Deferred cost of revenue	17,966	22,417
Prepaid assets	20,936	14,527
Other current assets	5,403	2,920
Total current assets	641,511	493,077
Restricted long-term investments	17,021	14,786
Long-term accounts and notes receivables, net of allowances for doubtful accounts of \$1,629 and \$1,764	69,641	65,456
Property, plant and equipment, net of accumulated depreciation of \$66,744 and \$60,556	66,453	35,097
Leased gaming equipment, net of accumulated depreciation of \$230,138 and \$209,680	138,144	113,751
Goodwill	990,083	172,162
Intangible assets, net	529,226	25,076
Deferred income tax assets	4,374	17,944
Income tax receivable	1,811	1,837
Deferred cost of revenue	11,404	12,105
Other assets, net	58,138	27,974
Total assets	\$ 2,527,806	\$ 979,265
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 28,457	\$ 25,863
Accrued and other liabilities	103,253	91,127
Jackpot liabilities	12,365	11,731
Deferred revenue	48,706	62,254
Income tax payable	5,572	11,345
Current maturities of long-term debt	39,305	24,615
Total current liabilities	237,658	226,935
Long-term debt, net of current maturities	1,900,935	580,000
Deferred revenue	29,081	23,696
Other income tax liability	12,679	12,658

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

Deferred income tax liabilities	134,143	171
Other liabilities	22,662	16,633
Total liabilities	2,337,158	860,093
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$.10 par value; 100,000,000 shares authorized; 65,642,000 and 65,318,000 shares issued and 39,097,000 and 38,855,000 outstanding	6,555	6,523
Treasury stock at cost, 26,545,000 and 26,463,000 shares	(1,084,060)	(1,058,381)
Additional paid-in capital	578,161	535,759
Accumulated other comprehensive loss	(15,846)	(10,692)
Retained earnings	705,334	646,339
Total Bally Technologies, Inc. stockholders' equity	190,144	119,548
Noncontrolling interests	504	(376)
Total stockholders' equity	190,648	119,172
Total liabilities and stockholders' equity	\$ 2,527,806	\$ 979,265

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 December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
	(in 000s, except per share amounts)			
Revenues:				
Gaming equipment and systems	\$ 177,398	\$ 139,323	\$ 324,785	\$ 273,334
Product lease, operation and royalty	107,795	99,016	209,697	200,156
	285,193	238,339	534,482	473,490
Costs and expenses:				
Cost of gaming equipment and systems (1)	72,916	52,205	127,422	107,559
Cost of product lease, operation and royalty(1)	32,365	29,335	62,984	60,328
Selling, general and administrative	90,986	67,852	163,413	132,368
Research and development costs	32,709	26,599	62,213	51,694
Depreciation and amortization	11,672	5,687	16,937	11,291
	240,648	181,678	432,969	363,240
Operating income	44,545	56,661	101,513	110,250
Other income (expense):				
Interest income	2,489	1,403	4,970	2,547
Interest expense	(11,795)	(4,538)	(16,222)	(9,155)
Other, net	(1,209)	(1,059)	(2,109)	(1,802)
Income from operations before income taxes	34,030	52,467	88,152	101,840
Income tax expense	(12,105)	(19,389)	(28,277)	(37,818)
Net income	21,925	33,078	59,875	64,022
Less net income (loss) attributable to noncontrolling interests	714	(48)	880	(1,636)
Net income attributable to Bally Technologies, Inc.	\$ 21,211	\$ 33,126	\$ 58,995	\$ 65,658
Basic and Diluted earnings per share attributable to Bally Technologies, Inc.:				
Basic earnings per share	\$ 0.55	\$ 0.82	\$ 1.53	\$ 1.62
Diluted earnings per share	\$ 0.54	\$ 0.80	\$ 1.51	\$ 1.57
Weighted average shares outstanding:				
Basic	38,502	40,399	38,441	40,633
Diluted	39,189	41,494	39,140	41,805

(1) Cost of gaming equipment and systems and product lease, operation and royalty exclude amortization related to intangible assets which are included in depreciation and amortization.

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
	(in 000s)			
Net Income	\$ 21,925	\$ 33,078	\$ 59,875	\$ 64,022
Other comprehensive income (loss):				
Foreign currency translation adjustment before income taxes	(7,119)	39	(7,354)	892
Income tax expense				
Foreign currency translation adjustment	(7,119)	39	(7,354)	892
Unrealized gain (loss) on derivative financial instruments before income taxes	3,086	1,289	3,385	763
Income tax expense (benefit)	(1,080)	(451)	(1,185)	(267)
Unrealized gain (loss) on derivative financial instruments	2,006	838	2,200	496
Total other comprehensive income (loss), net of income taxes	(5,113)	877	(5,154)	1,388
Comprehensive income	16,812	33,955	54,721	65,410
Less: comprehensive income (loss) attributable to noncontrolling interests	714	(48)	880	