

BALLY TECHNOLOGIES, INC.  
Form 10-K  
August 28, 2013

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended June 30, 2013

OR

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

For the transition period from to

Commission File Number 001-31558

**BALLY TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of  
incorporation or organization)

**88-0104066**

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

**6601 S. Bermuda Rd. Las Vegas, Nevada 89119**

(Address of principal executive offices)

**(702) 584-7700**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each Exchange on which registered</b>
Common Stock, \$0.10 par value per share	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  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 aggregate market value of the common stock, \$0.10 par value, held by non-affiliates of the registrant, computed based on the closing sale price as of December 31, 2012 of \$44.71 per share as reported by the New York Stock Exchange, was approximately \$1,799,000,000.

According to the records of the registrant's registrar and transfer agent, the number of shares of the registrant's common stock outstanding as of August 20, 2013 was 38,890,000, which does not include 26,474,000 shares held in treasury.

**Documents Incorporated by Reference:** Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year ended June 30, 2013, are incorporated by reference in Part III of this Annual Report on Form 10-K.

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**BALLY TECHNOLOGIES, INC.**  
**FORM 10-K**  
**Year Ended June 30, 2013**

**Forward Looking Statements**

Certain statements made or incorporated by reference in this Annual Report on Form 10-K, 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 our intent, belief or current expectations with respect to, among other things, future events and financial trends affecting us. Forward looking statements are typically identified by words such as "believes," "estimates," "expects," "anticipates," "plans," "should," "would" and similar 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 a number of risks, including those described in Item 1A, Risk Factors.

Forward looking statements in this Annual Report on Form 10-K 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 ensure that the forward looking statements contained in this Annual Report on Form 10-K will, in fact, transpire.

Unless the context requires otherwise, the terms "Bally," the "Company," "we" and "our" as used in this Annual Report on Form 10-K refer to Bally Technologies, Inc. and its subsidiaries.

**PART I**

**ITEM 1. BUSINESS**

**General**

Bally Technologies, Inc. is a diversified global gaming company that designs, manufactures, operates, and distributes advanced technology-based gaming devices, systems, server-based solutions, custom mobile applications, and interactive applications. Our innovations and technology solutions allow our customers to more effectively manage their operations using our wide range of marketing, data management and analysis, accounting, player tracking, security, and other software applications and tools. We also provide hardware, including spinning-reel and video gaming devices, specialty gaming devices, and wide-area progressive ("WAP") systems. We support customers that include traditional land-based, riverboat, and Native American casinos, video lottery and central determination markets.

We were founded in Chicago, Illinois in 1932 as Bally Manufacturing Corp. The Company was incorporated in Nevada on September 30, 1968, under the name Advanced Patent Technologies. Following two other name changes, we became Alliance Gaming Corporation on December 19, 1994, and on March 6, 2006, we changed our name to Bally Technologies, Inc. Our principal executive offices are located at 6601 South Bermuda Road, Las Vegas, Nevada 89119; telephone (702) 584-7700. Our website is [www.BallyTech.com](http://www.BallyTech.com). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and all amendments to those filings are available on

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our website, free of charge, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

**Company and Product Overview**

We derive our revenue from the following:

	Year Ended June 30,					
	2013		2012		2011	
	(dollars in millions)					
Gaming Equipment	\$ 339.8	34%	\$ 310.7	35%	\$ 246.6	33%
Gaming Operations	405.0	41%	357.4	41%	318.6	42%
Systems	252.2	25%	211.7	24%	193.0	25%
	\$ 997.0	100%	\$ 879.8	100%	\$ 758.2	100%

Sale of gaming devices and related equipment, parts and conversion kits;

*Gaming Equipment*

Operation of linked progressive systems, video lottery and centrally determined systems, and the rental of gaming devices and content; and

*Gaming Operations*

Sale and support of specialized systems-based software, hardware and interactive products and related recurring maintenance revenue.

*Systems*

Our gaming equipment, gaming operations, and systems product lines have increasingly converged with the proliferation of high-speed networks. Key innovation drivers in our industry are Ethernet-based gaming floors, downloadable and server-based games and applications, and open protocols and common industry standards in game and system development, such as Gaming Standard Association ("GSA") protocols. Players benefit from these advances by gaining more exciting experiences, better communication from casino owners, and superior customer service from gaming operators. Our customers benefit through operational efficiencies that can increase their profits and streamline their operations as well as new ways to drive excitement and play on the casino floor through the ability to do systems-based floor-wide promotions and slot tournaments.

The Bally Innovation Lab leads initiatives for new and emerging technologies. This research and development ("R&D") lab focuses on emerging technologies to produce our new products and enhanced features. Its mission is to accelerate the commercial deployment of the most cutting-edge, technology-based gaming devices, content, and systems on the market.

We focus on the convergence of games and systems in five key ways:

**Backward compatibility.** The majority of our latest systems, as well as network- and server-based solutions, are designed to work on most existing gaming devices.

**Pro Series cabinets with ALPHA 2 technology.** Our newest cabinets feature a library of game content, a support network, and server-based applications.

**iVIEW and iVIEW Display Manager ("DM")** . In-game picture-in-picture style technology supports an array of network and server-based applications designed to add excitement and interactivity on the gaming floor.

**Elite Bonusing Suite** . A library of systems-based bonusing applications for use on the iVIEW and iVIEW DM in-game player-user-interface, offers similar game content and some of the same play mechanics utilized by our gaming-device

content, but for floor-wide, secondary bonusing events.

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**Bally Command Center** . This powerful, server-based solution lets users download game content, iVIEW DM content and events, and peripheral updates at the touch of a button, dramatically increasing operating efficiency and enabling gaming operators to respond rapidly to the current business environment.

A gaming device consists of three elements:

**Cabinet hardware** the outside presentation cabinetry that houses the operating system and content software. This is how players interact with games.

**Operating system, or platform** a set of software programs inside the gaming cabinet hardware that regulate how the game application software programs utilize the hardware. It acts as an intermediary between application programs, the content, and the hardware.

**Content** individual game titles and features. Content drives the gaming experience for players.

Gaming devices are differentiated by a number of factors, such as game theme and layout, play mechanics, cabinet style, pay table, betting denomination, and minimum/maximum betting amount. We believe that the key to gaining market share is coupling superior customer service with leading-edge gaming cabinet hardware, content, and networks that offer high entertainment value and key operational advantages.

**Game Cabinet Hardware**

Our commitment to being a leader in technology is evident in our game cabinet hardware. Substantial efforts in product development, including internal, customer and end-player testing, has produced a variety of cabinet styles that house innovative features and layouts in both spinning-reel and video formats. The goal of our hardware development efforts is to maximize player appeal, product reliability, component commonality, and ease of maintenance. To that end, we dedicate hardware development resources to innovations in cabinet style, technical capability, controller circuit board design and programming, as well as user-interface devices such as card readers, keypads, button decks, and displays. We created a modular, extendible hardware and software architecture to help developers achieve greater efficiency, functionality and reliability. Development cycles can range from a few months for minor revisions, to more than a year for major design changes.

*Pro Series Cabinets*

We introduced the Pro Series cabinets, our latest generation design, in June 2010. Prior to the introduction of the Pro Series we marketed our cabinets under our ALPHA Elite brand. The Pro Series is currently available in upright, slant, spinning-reel, Curve, V32, V22/32, V22/42, and the soon to be released Pro Wave with a unique 40-inch curved touchscreen monitor. They come with groundbreaking features such as the touch-screen, iDeck , which replaces a standard button deck; custom, four-speaker high-definition ("HD") surround-sound stereo, designed to cut through noisy casino environments and target sound to the player; exterior lighting and a super candle light crowning the game, both synchronized to game play; a shared single entry for currency, tickets, and cash-outs; a 15-inch Pro Series digital topper with game-synchronized LCD video display; and vertically opening doors that make it easier to service games without interrupting adjacent games. We can configure the top-box in Pro Series cabinets in a variety of ways including with upright wheel, as a hammerhead with an oversized 32-inch cinematic display, using the commanding digital ladder 32-inch HD video display, and the soon to be released 42-inch vertical display.

The Pro Curve Upright, which emulates a spinning-reel cabinet, but is actually a video slot machine with a curved LCD display, features a breakthrough video-reel technology. A 20-inch LCD display, curved just like physical reels, delivers a realistic spinning-reel experience in a video slot. The reels

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look, feel, and play like traditional reels, but are actually video screens, and are an ideal solution for video-only jurisdictions that want to offer their customers a traditional spinning-reel experience.

**Game Platform**

Each gaming device requires a game platform to manage the device hardware and deliver the game content. Changes in technology, consumer demand, capacity, security, and regulations, among other factors, drive innovations in game play. We update our game platforms and the related computer systems to keep pace with the ever-increasing complexity of current game-play requirements.

We currently support two gaming platforms; the ALPHA and the ALPHA 2. Launched in June 2010, the ALPHA 2 builds on the success, and reliability of the original ALPHA platform. ALPHA and ALPHA 2 were designed to support industry protocols, as well as various kinds of game bonuses and multi-denomination, multi-game and multi-pay table game configurations. It can operate with stand-alone, local, and wide-area progressive products.

The ALPHA 2 platform incorporated all the attributes of ALPHA, which featured a layered architecture and modular design, allowing for adaptability and simplified requirement changes, while adding significantly faster and richer features, such as an INTEL® Core 2 processor; four gigabytes of dual-channel memory; Realtek HD audio; and leading video technology. This powerful platform enables dramatic new levels of interactivity, visual quality, and performance. The result is a more compelling gaming experience for players, including three-dimensional ("3D") graphics and animations. ALPHA 2 supports both existing and new game content, as well as network and server-based applications. It is operable with the Bally Command Center, discussed in detail below, which enables downloadable access to our game content via a central server. While transitioning to ALPHA 2 as our standard game platform for the majority of our game cabinets, we will continue to support the ALPHA platform.

**Game Development and Game Content**

We have decades of experience developing entertainment content for gaming operators, video lottery, and central-determination markets around the globe. Our game content features original themes, licensed themes using well-known brands, and adaptations of well-known Bally brands such as Cash Spin, Hot Shot®, Quick Hit, and Blazing 7s that can be found on most casino floors in North America and in many international markets. We have deployed our game content across wide-area progressive, local-area, and near-area progressive slots, spinning-reel and video gaming devices, specialty gaming devices, and multi-suite games. Our game-development teams cover the globe, with centers in Arizona, California, Nevada, Australia, and India. This diversification enables us to meet the demands of the markets in which we do business and develop market-specific game content.

The software development process for new game content, including graphics development, is continuous and requires a significant commitment of human resources. Creativity in software development is a key element in the market success and player appeal of our game content and gaming devices. Innovations in our development process and game design are generated internally and with the support of customers, and third parties, many of whom have entered into strategic relationships with us. Additionally, we have partnered with several internationally known brands, such as NASCAR, Pawn Stars, Michael Jackson, GREASE, Betty Boop, and the Playboy franchise.

We continue to add more entertaining, interactive, and complex play mechanics to our games, including features such as locking hot zone, free games with additional multipliers, rolling wilds, memory pay, multi-level progressives, free games, bonus bets, bonus spins, stacked wilds, mystery progressives, locked symbol bonuses, second-chance features, asset giveaways, multi-player, community play, U-Spin player interaction, random bonus features, and the new arcade-like play mechanic which enables players to touch and roll balls on the game screen in our new SKEE-BALL® video slot.



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Our game developers are also focused on developing highly interactive content for the iDeck touch-screen button deck, making it another interactive channel and display on the gaming device. The iDeck content is often synchronized with game play, adding even more entertainment and interaction to the player experience.

**Game Parts and Conversion Kits**

Our gaming device customers typically purchase replacement parts, upgrades, game conversion kits, and other products from us to keep the devices in good working order and enhance their underlying performance. Certain equipment within gaming devices, such as video monitors, bill validators, logic boards, and printers, may also be replaced as a result of wear and tear or new technology offerings by our suppliers. These sales may also include game conversion kits that provide our customers the opportunity to offer a new game theme or variant on the existing product without the necessity of purchasing a new gaming device. Our Pro Series cabinets, with their all-digital displays and iDeck digital, configurable touch-screen button deck, make game conversions easy and cost-effective for casino operators as they do not have to change the button configuration or replace game glass.

**Maintenance, Trade, and Resale Market**

We generally offer a 90-day parts, labor, and performance warranty/guarantee for new gaming devices. We provide several after-sale services to our customers, including customer education programs, a 24-hour customer service telephone hotline, a website for technical support, field service-support programs, and spare parts programs. Our historical warranty expense as a percentage of revenues has been less than 1 percent.

From time to time, we also sell used gaming devices, including products made by us as well as those produced by our competitors. Generally, we acquire used devices as trade-ins toward the purchase of new gaming devices. While there is a small secondary market for used devices in the U.S., they are typically resold in international markets where new device purchases may be too costly. Where appropriate, we incur costs to recondition used devices for resale or we may elect to destroy and recycle materials whenever possible.

**Gaming Operations**

We understand that each customer has its own particular needs based on its business and market. Through our Gaming Operations, we offer gaming operators a wide range of rental (also known as participation or recurring revenue) options for our gaming devices and content. Operating gaming devices under a rental arrangement often requires us to invest significant capital in manufacturing the gaming device and related equipment, purchasing signs and seating, and, in certain cases, acquiring intellectual property rights. These rental devices are available as linked progressive systems, rental and daily-fee games, video lottery systems, and centrally determined systems.

*Linked Progressive Systems*

We offer our customers gaming devices featuring a common jackpot or prize award that can be linked (within a casino, in a local-area network, or among multiple casinos within a market or jurisdiction) in a wide-area network. We typically offer progressive gaming devices to customers under a daily-fee arrangement based on a percentage of the money wagered on the participating gaming devices. In many cases, we use a portion of these revenues to fund the ultimate payment of the jackpot awards. We market our linked progressive systems under titles such as 1,000,000 Degrees , Golden Pharaoh , Betty Boop's Love Meter , Money Vault , Instant Fortune , Ultimate Tower of Power , and Quarter Million\$ Tower of Power . In fiscal year 2012, we introduced our new Cash Connection WAP and continue to add identifiable brands as well as in-house brands to the Cash Connection WAP, inclusive

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of Michael Jackson King of Pop , NASCAR®, Betty Boop's Fortune Teller , GREASE , Hot Shot Progressive Dual Wheel and Cash Spin Jackpot . As of June 30, 2013, we had a total of 2,463 linked progressive systems.

*Rental and Daily-Fee Games*

We offer a variety of non-linked games and content on a rental basis for either a fixed daily fee or a fee based on the percentage of the net win generated by the gaming device. Many of the games we market and offer under WAP are also made available on a flat-fee near-area progressives ("NAP") included in this category. This category includes both gaming devices in which we retain ownership and charge a daily fee for the use of the gaming device, and gaming devices our customers purchase which are classified as game sales revenue. Gaming devices in which we retain ownership and charge a daily fee include rental and maintenance of the gaming device and licensing of the game content. For gaming devices our customers purchase, we provide the game content under a usage-fee arrangement that results in a lower daily-fee than leasing the entire gaming device. We market our rental and daily-fee games under titles including Money Talks , Money Wheel , Vegas Hits Roadtrip , Cash Spin, Hot Spin , Vegas Hits , Cash Wizard , Cash Wizard Tiki Magic, Ultimate Tower of Power, Hot Shot Progressive Cash Wheel , Fireball , 77777 Jackpot , Reel Money , Hot Shot Progressive®, Quick Hit Platinum , Reel Winners , Heat & Monte Carlo , among others. As of June 30, 2013, we had a total installed base of rental and daily fee games of 14,855 units.

*Video Lottery Systems*

We offer video and spinning-reel devices that can operate either as stand-alone devices or as units that interact with (or can be monitored by) a central system maintained by government agencies. The financial model for this market requires us to build, deploy, and maintain the devices, along with providing the related equipment in return for a share of the net win generated by the device for a contractually fixed period of time.

Through a competitive bidding process, we, and prior to our acquisition thereof in March 2004, Sierra Design Group ("SDG"), were each awarded approximately 25 percent of the initial New York State Lottery ("NYSL") terminals to be installed at horseracing facilities throughout the state. As of June 30, 2013, we earned recurring revenue from our installed base of 8,908 video lottery devices and 646 electronic table games operated by NYSL. We also earn recurring revenues from 1,236 video lottery devices deployed at horseracing and other gaming facilities under agreements with the Delaware State Lottery Commission, 1,175 video lottery devices and 81 electronic table games deployed at Maryland State Lottery Commission locations, and 527 video lottery devices located in Italy.

*Centrally Determined Systems*

We offer video and spinning-reel devices that connect to a central server, which determines the outcome of the games. These systems primarily operate in Native American casinos in Washington, Oklahoma, and Florida, as well as Mexico. In some of these jurisdictions, our customers purchase our gaming devices and we classify the purchases as game sales revenues. In other jurisdictions, our customers rent the gaming device and we classify the rental payments as gaming operations revenues. In each case, for the use of our central determination software, we receive either a fixed daily fee or a percentage of the net win generated by the devices connected to the system. As of June 30, 2013, the total installed base of gaming devices connected to our centrally determined systems totaled 35,284. The installed base of centrally determined systems has declined over the past two fiscal years as certain customers have upgraded these systems to utilize more sophisticated player tracking, bonus and marketing applications, and are now covered under systems maintenance.

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In December 2005, we began selling centrally determined gaming devices in Mexico. In that market, we sell gaming devices for an upfront fee, and classify the purchases as game sales revenues. We also derive a daily fee equal to a percentage of the net win for providing a system network, gaming content, and monitoring, maintenance and consulting. As of June 30, 2013, 8,829 of the total installed base of gaming devices connected to our centrally determined systems were deployed in Mexico. Included in the total installed base of centrally determined games in Mexico are 5,510 iVIEW in-game player-communication units installed in non-Bally games, in which we charge a system connection fee. The total installed base of centrally determined games noted above includes the iVIEW units in Mexico.

**System Solutions**

We offer core, industry-leading slot, casino and table management systems (collectively, "casino management systems") that help our customers improve communication with players, add excitement to the gaming floor, and enhance operating efficiencies through greater automation, reporting, and business intelligence. Our comprehensive suite of cutting-edge technology solutions provides gaming operations of every size 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. We also provide technologies to deploy a networked, server-based gaming environment, complete with a command center solution for centralized management and control.

Our systems have evolved in recent years as we have taken significant steps to improve our casino management systems offerings, releasing a powerful new platform re-engineered to game-changing technology levels. This new core system platform provides gaming operators with easy-to-use graphical interfaces; vertical and horizontal scalability; state-of-the-art distributed architectures; and support for multiple languages and currencies.

Today, there are more than 350 casinos that have installed Version 11 and Version 12 of our new core system platform. The improvements in our core systems platforms resulted in a reliable and scalable foundation of slot, casino and table management systems. This solid, world-class core infrastructure and a unified strategic product roadmap have enabled us to implement new and innovative solutions for marketing, bonusing, and server-based gaming. We offer several innovative products on our new system platform including new bonusing applications within our Elite Bonusing Suite; predictive analytics within our Bally Business Intelligence ; and intelligent way-finding within Bally CoolSign®.

Over the past several years, gaming content and systems applications have merged into a single gaming-floor network architecture. In response, the functionality of our systems has evolved from basic automation of manual activities to highly integrated applications. Using our systems, gaming operators gain useful features such as active, real-time monitoring tools for gaming devices, tools to collect and manage customer data, security to protect against theft and data loss, the ability to track and reward players, and marketing programs to enhance the gaming experience.

As the gaming industry continues to evolve, some operators have embraced new server-based and high-speed network technology. Many have opened new operations that employ high-speed Ethernet connections on their floors, and many others are upgrading to high-speed networks. We partner with our customers to help them add network and server-based solutions to their existing systems, whether on a floor-wide basis, in smaller sections of the floor, or on selected banks of games. Once installed, these solutions increase efficiency and labor savings. More importantly, they provide operators with new and more efficient ways to communicate with their players. By marketing at the point-of-play and delivering floor-wide tournaments, bonusing events, and second-way-to-win games, operators increase their return on investment and create even more excitement for players across the gaming floor.

We believe we are the only provider in the industry that offers such a wide selection of technology platform options to its customers. There are more than 450,000 gaming connections to our Systems at more than 650 locations around the world.

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Our Systems business comprises three key facets:

Hardware, including our iVIEW and iVIEW Display Manager (DM) player-user-interface devices and specialized system-based products. Over the last two fiscal years, hardware sales have accounted for approximately 30 percent of Systems revenue;

Software and services, including licenses of our core systems and suite of player tracking, bonusing, and marketing applications and customized system solutions. Over the last two fiscal years, sales of software and services accounted for approximately 34 percent of Systems revenue;

Maintenance, providing access to future enhancements or upgrades to the system software for a fee based on a percent of the license fee. Over the last two fiscal years, ongoing maintenance fees accounted for approximately 36 percent of Systems revenue.

*Casino Management Systems*

The various system-based hardware and software products in our casino management systems offer gaming operators many benefits including: player-loyalty solutions that are comparable to frequent guest programs found in other leisure and retail industries; database marketing and table-game accounting solutions including the calculation of all revenue and expense-related items; and cage and credit accountability for all extensions of cage and credit cash balancing functions. We designed and deployed these systems in both domestic and international markets so that they would be and adaptable to foreign languages and currencies.

Our solutions, which support GSA protocols, operate on common platforms such as Windows®, AS/400 (iSeries®), Linux, and UNIX. By supporting these platforms, we allow our customers to choose a technology solution that meets their existing or future infrastructure requirements.

We design our slot-management systems with features for handling slot monitoring, accounting, and operations, as well as bonusing, sweepstakes, promotions, cashless transfer, ticketing, jackpots, promotional coupons, redemptions, and soft count. Our TableView real-time table-rating and player-tracking solution takes automated management of table-game activities directly to the casino pit with a high-tech touch screen.

The Bally Business Intelligence applications, which span across all our casino management systems, bring state-of-the-art data analytics to a gaming operator's key executive and marketing-management teams. Executive dashboards, slot floor data, and transaction visualization, empower gaming operators to analyze customer activity and make quick decisions about products, floor layouts, and marketing programs that can significantly enhance revenue and profits.

*iVIEW Player-Communication Network*

Our server-based iVIEW network serves as a way to communicate with players directly at the point-of-play. This network allows gaming operators to present messages in a split or full screen format on the main game display of any touch-screen- equipped gaming device without interrupting traditional game play. We created picture-in-picture-style technology, using an LCD screen and accompanying hardware and software that reside in the gaming device, for the iVIEW DM player-user-interface (also operating on the iVIEW network).

Our iVIEW network also works with our Bally Command Center for server-based download of content, our Elite Bonusing Suite of floor-wide bonusing applications, our Bally CoolSign media management solution, and other new technologies under development. iVIEW and iVIEW DM work on almost any manufacturers' gaming devices that have a touch screen and are backward and forward compatible, so they protect operators' invested capital.

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The iVIEW DM solution, with all its capabilities, is especially effective for marketing to players at the point of play. This picture-in-picture-style technology facilitates enhanced communication and customer-service functions such as beverage service, floor mapping, and real-time perishable promotions without interrupting game play. iVIEW DM can also be used to create excitement on the casino floor with floor-wide bonusing events; game-in-games; second-chance-to-win games; floor-wide slot tournaments; interactive virtual racing events; time-based promotions; targeted, customized player messaging; and bonuses on birthdays, anniversaries and holidays. iVIEW and iVIEW DM can even work in conjunction with the casino's player data to offer customized content based on gender, age, and provide player preferences.

We can implement iVIEW DM across entire gaming floors, in smaller sections of floors, or bank-by-bank based on casino operator preference and capital budgets.

*Elite Bonusing Suite*

The Elite Bonusing Suite gives our customers a way to reward their patrons right at the point-of-play via the iVIEW network. This technology retains current players, attracts new ones, and increases player value. Bonusing applications on the Elite Bonusing Suite server allow operators to tailor and automate promotions using server-based applications such as Virtual Racing , DM Tournaments , U-Spin Bonusing , Power Winners , Dynamic Random Bonusing , Video Poker Bonusing , iVIEW Messaging , Flex Rewards , and Lucky Match Bonusing .

*Bally CoolSign Media Management Solution*

We believe Bally CoolSign is the gaming industry's leading gaming-centric media-management tool that enables gaming promotions and/or gaming information, triggered through any of our products, to be displayed onto any digital display in the casino resort or the casino enterprise. Through digital signage that integrates with lighting and sound systems, CoolSign adds excitement to the casino floor and across the casino resort, even extending to compatible outdoor displays.

Casinos that offer the iVIEW, iVIEW DM, and CoolSign products often use these products in concert to create powerful, floor-wide virtual-racing, slot tournaments, and player-bonusing events so their patrons can fully experience the action and excitement not only on the gaming device, but on large media displays throughout the casino resort.

*Bally Command Center*

Our server-based command center enables gaming operators to download marketing content on iVIEW and iVIEW DM displays. They can also configure gaming device pay tables and game play options, deliver new game content and game libraries, and perform updates of game firmware such as ticket printers and bill acceptors in a matter of minutes via a central server, rather than having to implement updates on each device.

*Systems-Delivered Floor-Wide Player Engagement and Bonusing Events*

Casino operators consistently face the challenge of coming up with creative ways to attract and retain players, generate additional revenue, and increase retention rates. To overcome these challenges, casinos are using technology to change the player experience in their properties by communicating marketing promotions and special events to players directly on the game screen across banks of games, in sections of the casino, and even across the floor.

Using a combination of our iVIEW DM picture-in-picture player-user-interface and the Elite Bonusing Suite innovations, casino are creating exciting tournaments and special promotional events on demand to enhance the player experience and to build player loyalty. Casinos are enhancing the player

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experience using community floor-wide events through the Elite Bonusing Suite's Virtual Racing application to promote excitement and participation across the casino floor. Using the DM Tournaments' application, casinos are staging their tournaments as group or individual start events, and converting their games to regular-play mode in a matter of minutes. This flexibility allows operators to identify what machines will be placed in tournament mode and instead of physically having tournament machines on standby, any bank of machines or any individual machine on the gaming floor can become a tournament game almost instantaneously.

This backward-compatible player-centric bonusing technology supports multiple manufacturers' games with a touch-screen display. As a result, all players across properties can now have the same game experience no matter which manufacturer's machine they are playing. Beginning in fiscal year 2012, we partnered with casino operators hosting several Elite Bonusing Suite floor-wide player engagement and bonusing events. Each of these events not only increased return-on-investment and property exposure, but they also generated large crowds of players and helped to build and attain player loyalty without interrupting game play.

**Interactive Solutions**

Bally Interactive encompasses our mobile and online initiatives and related product offerings that provide operators a variety of solutions designed to help develop, deploy, and manage their interactive presence, or enhance their existing presence if already in place. By offering mobile and online play-for-free and wager-based gaming products, we expect to integrate our cross-platform solutions with core casino patron, slot-management, and business-intelligence systems. This "single view of the player" will give casino operators enterprise-wide analytics and the ability to employ multi-channel promotions and bonusing to patrons on the casino floor, at home, or on the move.

*Online*

Our online solutions are designed to enable casino operators the ability to offer players a complete online gaming experience through our iGaming Platform and Remote Gaming Server whether it be play-for-free or wager-based gaming products on computers or mobile devices. Our open, cloud-based iGaming Platform enables operators to choose "best-in-class" poker, slot, table, and other gaming content from various providers. This content is delivered via our Remote Gaming Server, allowing access to the entire library of games and one-time integration. Our Remote Gaming Server in Europe is currently operating on 8 portals and 16 sites. We were the first in the United States to be awarded an online gaming license in the State of Nevada in June 2012 and have also received numerous online gaming licenses in other domestic and foreign jurisdictions.

*Mobile*

We offer or have created mobile apps and mobile websites for dozens of casinos around the world. Our apps are designed as casino "concierge" apps, providing operators the opportunity to attract new players, enhance their patrons' casino resort visit, and sell more to them via their phones or mobile tablets. Apps can include popular casino games, player's club sign-up and account information, hyper-targeted offers, show previews, room and restaurant bookings, feedback surveys, menus, interactive maps, and many other features. Utilizing our cloud-based mobile technology platform, casinos can manage their entire portfolio of mobile websites and native apps for iPhone®, iPad®, Android phone, Android tablet, BlackBerry®, and other devices from a single content management system.

**Research and Development**

Our R&D activities are directed toward the development of world-class games and systems technologies, continually evolving our product line. In addition, we devote R&D resources to

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researching future technologies and products. Due to our customer-centric nature, we also focus on custom development of applications and solutions for gaming operators. Often, these solutions become part of our general product portfolio.

Our R&D is far-reaching in scope, with major centers in Las Vegas and Reno, Nevada, and Bangalore and Chennai, India; and smaller centers in Nice, France and throughout North America. Various business groups across the globe execute our R&D initiatives, and we believe this decentralized approach enables us to more easily recruit and retain top talent to develop games and systems specific to each market. We centrally manage key cross-business group product initiatives to prioritize and align our R&D activities across these teams. In addition, we may augment our R&D initiatives through third-party development agreements with outside companies, or by entering into agreements with companies that have similar areas of focus.

Our total expenditures for R&D were \$111.1 million, \$96.2 million, and \$88.1 million during the years ended June 30, 2013, 2012 and 2011, respectively, and has remained relatively consistent as a percentage of revenues during such periods. Our R&D expenditures over this three-year period reflect our corporate focus on our technology assets, the expansion of technical resources, and the competitive landscape that requires continuous development of future generations of gaming products and systems.

**Sales and Marketing**

Our direct sales force consists of approximately 60 employees located in multiple offices, primarily in North America. To a lesser extent, we also employ an independent distributor network to distribute our products. The agreements we have with distributors generally specify minimum purchases and provide that we may terminate the relationship if certain performance standards are not met.

We sell gaming devices throughout our fiscal year, and contracts may be for anything from a small quantity of units to several thousand. We conduct one-on-one meetings with our customers to demonstrate our products at their locations, host customers at private demonstrations in our offices or at offsite venues, and participate in a number of trade shows and conferences domestically and internationally each year. In certain cases, we respond to competitive requests for proposal from private and public entities seeking to purchase gaming equipment.

For casino enterprise system sales, we give our customers the option of signing separate hardware and software maintenance agreements at the time of sale. Typically, these agreements are for one-year terms and automatically renew unless canceled in writing by either party. After an initial warranty period, usually 90 days, we invoice customers monthly for hardware and software maintenance fees that provide for, among other things, repair or replacement of malfunctioning hardware, software version upgrades, and on-call support for software.

Often, the sale of enterprise systems is a long process, at times extending beyond one year. A potential systems customer usually will conduct a formal evaluation and selection of a vendor. The level of sales available to us at any time can vary materially due to a number of factors, including the capital budgets of our customers, availability of new product modules, timing associated with regulatory approvals, and the success and features contained in the products sold by our competitors. The price paid for a full system also can vary materially from customer to customer depending on factors, such as the size of the gaming operation and the complexity and number of functions contained in the system specified.

*Global Marketing*

Our global marketing program is designed to support our sales team providing branding, public relations, promotions, product marketing, and extensive market-research activities.

We build brand awareness and generate demand through our own direct marketing as well as co-marketing programs with our casino customers. We direct market through print, e-mail, and

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web-based advertising, as well as media relations, industry trade shows, conferences, and events, and gaming industry and player/consumer communications. We primarily target business audiences focusing on heightened awareness of and demand for our games and systems solutions.

We currently have 24 dedicated marketing team members, who conduct casino-operator and player research, and provide pre and post-product launch support, as well as corporate marketing support in the areas of internal and external communications, community relations, marketing events, international marketing, and graphic design. Over the past several years we have significantly increased our use of focus groups to support product development. These focus groups are an important tool for acquiring feedback on new and not-yet-released products before they are broadly released to the market; they allow us to make customer-driven improvements to products before we invest in widespread product releases.

**Discontinued Operations**

The Rainbow Casino, located in Vicksburg, Mississippi, began operations in July 1994. On June 8, 2010, we sold the Rainbow Casino for approximately \$80.0 million in an all-cash transaction.

**Product Markets**

We believe that the total base of installed gaming devices in North America is approximately 987,000 units, with approximately 887,000 units in the U.S. alone. This total includes land-based, riverboat, and Native American casinos, as well as video lottery markets. Replacement of existing units, new casino openings or expansions, and the legalization of gaming in new markets are primary drivers of new sales opportunities for gaming devices in the U.S. and Canada. The gaming industry also continues to expand in international markets. Currently, our primary international markets are Europe, Latin America, South America, Mexico, and Asia-Pacific. We regularly evaluate opportunities to expand our business into additional international markets, examining the risks involved such as those described in Item 1A, Risk Factors.

We distribute our gaming devices through direct sales efforts and a small number of distribution arrangements. Staff conducts our international business primarily from offices in Amsterdam, Netherlands for customers in Europe; Puerto Rico for customers in the Caribbean and Latin America; Buenos Aires, Argentina for customers in South America; Mexico City for customers in Mexico; Macau, China for customers in Asia-Pacific; Sydney, Australia for customers in Australia and New Zealand; and Boksburg, South Africa for customers in South Africa.

The primary markets for casino enterprise systems are the U.S. and, to a lesser extent, Canada, South America, Europe, the Pacific Rim and the Caribbean/Latin America, but new international markets are constantly emerging. New casino openings, expansions, upgrades of existing facilities, and the competitive replacement of other systems overseas are increasing the market for casino enterprise systems across the globe. We also generate new system sales through the introduction of innovative hardware and software products. In many cases, domestic regulations require the implementation of a system as part of a customer's operational requirements; yet, international markets have only recently begun the full implementation of such systems. We believe, as these markets mature and grow more competitive, the use of systems will become more common.

**Competition and Product Demand**

The demand for gaming devices, content, and systems varies depending on the level of new construction and renovation of casinos as well as market and legislative conditions that might generate the need for new and replacement equipment and product innovation. For the year ended June 30, 2013, our 10 largest customers, including customers with multiple casino properties, accounted for approximately 25% of gaming device sales.



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Regulatory requirements in each applicable jurisdiction drive the demand for casino enterprise systems, as do gaming operators' needs to properly track device and player activity, and to establish and compile individual device and player profitability and other demographic information to stay competitive. These capabilities enable casinos to develop or enhance marketing strategies. As more and more gaming operators move to high-speed networked floors, we expect the demand for new systems technologies to increase. Customers will replace older systems with new network and server-based systems solutions that enable activities such as centralized management and floor-wide events and tournaments on each gaming device. We derive revenues for casino enterprise systems from selling products to new and existing customers. For the year ended June 30, 2013, the 10 largest casino enterprise system customers, that include certain multi-site operators, accounted for approximately 47% of systems revenues, with the largest customer accounting for 9% of these revenues.

We compete with a number of domestic and international businesses in the geographic markets where we operate. Our ability to compete effectively depends on a number of factors including our product quality and depth, pricing, financing terms, regulatory approvals, the successful development and protection of intellectual property, and the success of our distribution, sales and service levels.

In the gaming device market, our competitors currently include Ainsworth Game Technology Ltd., Aristocrat Leisure Limited ("Aristocrat"), Aruze Gaming America, Inc., GTECH Holdings Corporation ("GTECH"), International Game Technology ("IGT"), Konami Co. Ltd. ("Konami"), Multimedia Games, Inc. ("MGAM"), Novomatic AG, Recreativos Franco, S.A., Unidesa Gaming and Systems, and WMS Industries, Inc. ("WMS").

The competition for casino enterprise systems is also significant. Product feature and functionality, accuracy, reliability, service level and pricing are among the factors that determine how successful providers are in selling their systems. Our principal competition in casino enterprise systems currently includes Aristocrat, IGT, Konami and several smaller providers in the international market. Competition is intense in this market due to the number of providers and the limited number of casinos and jurisdictions in which they operate.

**Global Headquarters, Technology Campuses, Manufacturing and Assembly Operations**

*Global Headquarters*

Our global headquarters is located in Las Vegas, Nevada at 6601 South Bermuda Road. Our approximately 150,000 square foot facility is used for corporate administrative functions as well as to accommodate the design, assembly and distribution of gaming equipment and casino management systems' hardware and to meet product design demands and varying levels of volume requirements.

*Las Vegas and Reno Technology Campus*

We lease an additional 36,000 square feet of office space next door to our global headquarters facility in Las Vegas for a Technology Campus for our game development, advanced development, and project management teams. In addition, we lease approximately 83,000 square feet in Reno, Nevada, which provides a larger campus-style environment that accommodates the growth of our game development, system development, product management, and administrative functions in northern Nevada.

*Bally Innovation Lab*

Our global Innovation Lab is located in Pleasanton, California, a major suburb of San Francisco. This allows us to draw from the significant high-tech talent that resides in the Silicon Valley. In our Innovation Lab, a team of employees focus on researching and developing new gaming technologies, products, and the rapidly growing area of server-based systems gaming. The Innovation Lab capitalizes

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on our R&D talent across the globe and is dedicated to developing, testing, and deploying the newest technology.

*Manufacturing and Assembly*

Our assembly operations have common hardware components that provide greater flexibility in our assembly operations where each product family can be produced by an expanded set of assembly lines with fewer internal product differences and more streamlined testing.

We generally buy raw material inventory to build our gaming devices when we receive firm orders from our customers. To the extent possible, we also forecast the demand for our products to develop more efficient supply chains with our vendors. We create specifications and design nearly all of the major assemblies that are incorporated into our gaming devices.

We believe our primary offices and related facilities in Las Vegas, as well as process improvement initiatives implemented during the last few fiscal years, will enable us to increase production without adding significant floor space.

**Patent, Copyright and Trade Secret Protection**

We have been a long-standing participant in the development of intellectual property in our industry. While we do not believe that any single patent or series of patents or other intellectual property is crucial to our business, we use a combination of patents, copyrights, trade secrets, trademarks and proprietary information to maintain and enhance our competitive position, protect our products, and defend against litigious competitors. We have been granted over 475 patents related to games and systems, most of which are unexpired, and have approximately 600 patent applications pending in the United States as well as in many foreign countries. The expiration dates of these patents vary and are based on their filing and issuances dates. We intend to continue to actively file for patent protection, where such filings are commercially reasonable, within and outside the United States. We also seek protection for a large number of our products by registering hundreds of trademarks in the United States and various foreign countries. Under permission or license agreements with third parties, we also sell products covered by independently filed copyrights and trademarks. Typically, these contracts require us to pay royalties to the licensing party. Royalty expenses are included in cost of gaming and systems in our consolidated financial statements.

**Employees and Labor Relations**

As of June 30, 2013, we and our subsidiaries employed approximately 3,443 individuals worldwide. The large majority of our employees are not represented by a labor union, and we believe that our current relations with our employees are satisfactory.

**Financial Information**

The other financial information that is required to be included in this Item 1, Business is set forth in Item 6, Selected Financial Data with respect to our revenues, profits and losses, and assets, and in Note 13 to the consolidated financial statements, *Segment and Geographical Information* with respect to domestic and foreign revenues and assets.

**Gaming Regulations and Licensing**

The manufacture and distribution of gaming devices and systems are subject to extensive federal, state, local, and foreign regulation. Although the laws vary from jurisdiction to jurisdiction, the regulatory structure and the requirements of the State of Nevada, as described below, are typical of the types of statutory and regulatory schemes to which the Company is subject. Such laws, rules, and regulations

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generally concern the responsibility, financial stability and character of the Company and our officers, directors, major stockholders and key personnel. Many jurisdictions require gaming devices, systems and other products we manufacture to be tested and approved before being distributed. We have obtained all licenses necessary to manufacture, distribute and, where permitted, operate gaming devices in the jurisdictions in which we do business. We manufacture our products in the state of Nevada.

*Nevada*

Our business is subject to the Nevada Gaming Control Act and the regulations promulgated thereunder (the "Nevada Act") and various local ordinances and regulations. We are subject to the licensing and regulatory control of the Nevada State Gaming Control Board (the "Nevada Board"), the Nevada Gaming Commission (the "Nevada Commission"), and various county and city regulatory agencies, all of which are collectively referred to as the "Nevada Gaming Authorities."

Nevada gaming law is based on policies concerning (i) the prevention of unsavory and unsuitable persons from having any involvement with gaming; (ii) the establishment and maintenance of responsible accounting practices; (iii) the maintenance of effective control over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record-keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities; (iv) the prevention of cheating and fraudulent practices; and (v) providing a source of state and local revenues through taxation and licensing fees. A change in, or non-compliance with, such laws, regulations, and procedures could have an adverse effect on our business.

Each of our subsidiaries that manufactures, distributes, or operates gaming devices in Nevada, or the entities that own such subsidiaries (collectively, the "licensed subsidiaries"), are licensed or found suitable (which is comparable to licensing) by the Nevada Gaming Authorities. The licenses require periodic renewals and payments of fees and taxes and are not transferable. We are registered with the Nevada Commission as a publicly traded corporation and have been found suitable to own the licensed subsidiaries.

Only licensed manufacturers and distributors may manufacture or distribute gaming devices and cashless wagering systems in Nevada. All gaming devices manufactured for use or play in Nevada or for distribution out of Nevada must be approved by the Nevada Commission before they are distributed or exposed for play. Before associated equipment (as defined in the Nevada Act) can be distributed in Nevada, it must be administratively approved by Nevada Board chairman.

In December, 2011, the Nevada Gaming Commission adopted regulations implementing the Nevada Act's provisions authorizing interactive (online) gaming. The nation's first regulatory scheme for such activity provides that only licensed manufacturers of interactive gaming systems and licensed interactive gaming service providers may offer interactive gaming systems and related services to Nevada licensed interactive gaming service operators. On June 21, 2012, the Nevada Gaming Commission approved the application of our subsidiary Bally Gaming, Inc., for such licenses.

The Nevada Gaming Authorities may require any individual who has a material relationship or involvement with us or our licensed subsidiaries, including officers, directors, and key employees, to be found suitable or licensed. The Nevada Gaming Authorities may deny an application for licensing or finding of suitability for any cause they deem reasonable.

The Nevada Gaming Authorities may require us to sever all relationships with anyone who is found unsuitable or who refuses to file appropriate applications.

We and our licensed subsidiaries are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities, and similar financing transactions must be reported to and in some cases approved by the Nevada Commission.

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If the Nevada Commission determined that we had violated the Nevada Act, our licenses could be limited, conditioned, suspended, or revoked. In addition, we could be subject to substantial fines for each separate violation. Any such disciplinary action could, and revocation of any gaming license would, materially adversely affect our operations.

The Nevada Gaming Authorities may require the holder of any of our equity or debt securities to file applications, be investigated, and be found suitable by the Nevada Commission. The applicant must pay all costs of investigation.

The Nevada Act requires any person who acquires more than 5 percent of any class of our voting securities to report the acquisition to the Nevada Commission. The Nevada Act requires that beneficial owners of more than 10 percent of any class of our voting securities apply to the Nevada Commission for a finding of suitability within thirty days after the chairman of the Nevada Board mails written notice requiring such filing, in which case the applicant must pay all costs of investigation. Under certain circumstances, an "institutional investor," as defined in the Nevada Act, that acquires more than 10 percent but not more than 25 percent of a class of our voting securities may apply to the Nevada Commission for a waiver of finding of suitability if the institutional investor holds the securities for investment purposes only, as defined in the Nevada Act. Any person who fails to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Nevada Commission or the chairman of the Nevada Board may be found unsuitable. The same result would occur to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or our subsidiaries, we (i) pay that person any dividend or interest; (ii) allow the exercise of any voting right; (iii) pay remuneration to that person; or (iv) fail to pursue all lawful efforts to require such unsuitable person to relinquish the voting securities, including, if necessary, the immediate purchase of the securities for cash at fair market value.

In March 2013, the Nevada Commission granted us prior approval to make public offerings of our securities for a period of three years, subject to certain conditions ("Shelf Approval"). The Shelf Approval is not a finding, recommendation, or approval by the Nevada Commission as to the accuracy or inaccuracy of the prospectus or the investment merits of the securities offered. Any contrary representation is unlawful.

Changes in control of us through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct whereby a person or entity acquires control, may not occur without prior Nevada Commission approval. The Nevada Commission has regulations to ameliorate the potentially adverse effects of corporate acquisitions opposed by management, repurchases of voting securities, and corporate defense tactics affecting Nevada gaming licensees. Approvals are required from the Nevada Commission before a registered corporation can make exceptional repurchases of voting securities and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by our board of directors in response to a tender offer made directly to our stockholders for the purpose of acquiring control of us.

License fees and taxes are payable to the State of Nevada and to the counties and municipalities in which the licensees operate.

We are required to deposit with the Nevada Board and thereafter maintain a revolving fund to pay the expenses of investigation by the Nevada Board of our participation in certain gaming activities outside Nevada. We are also required to comply with certain reporting requirements and are subject to disciplinary action if we violate any gaming laws of the foreign jurisdiction pertaining to the foreign

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