MULTIMEDIA GAMES HOLDING COMPANY, INC.
Form 10-K
November 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 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: 000-28318

Multimedia Games Holding Company, Inc.
(Exact name of Registrant as specified in its charter)

Texas	74-2611034
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
206 Wild Basin Road South, Building B Austin, Texas	78746
(Address of principal executive offices)	(Zip Code)

(515) 334-7500
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value $0.01	The NASDAQ Stock Market LLC

Securities registered pursuant to section 12(g) of the Act:
None

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

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 o No x

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 x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. o

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 o	Accelerated Filer x
Non-Accelerated Filer o	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). Yes o No x

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which common equity was last sold as of the last business day of the Registrant’s most recently completed second fiscal quarter (March 31, 2013) was $599,141,678 (assuming, for this purpose, that only directors and officers are deemed affiliates.)

As of November 8, 2013, there were 29,591,077 shares of the Registrant’s common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement on Schedule 14A to be delivered to shareholders in connection with the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

FORWARD LOOKING STATEMENTS

Multimedia Games Holding Company, Inc. (f/k/a Multimedia Games, Inc.) and its subsidiaries (referred to as the “Company,” “we,” “us,” “our” or "Multimedia Games") has made forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. Such forward-looking statements include, but are not limited to, statements regarding future actions, operating results, liquidity, capital expenditures, cash management and financial discipline, product, system and platform development and enhancements, customer and strategic relationships with third parties, strategies, initiatives, legal and regulatory uncertainties, including outcomes of litigation, the effects of such outcomes upon our business, changes in existing laws and regulations or in the interpretation of such laws and regulations, entry into new markets or jurisdictions or the obtaining of new licenses. The forward-looking statements may be preceded by, followed by or include the words “may,” “might,” “will,” “plan,” “estimate,” “expect,” “intend,” “believe,” “should,” “would,” “could,” “anticipate,” “continue,” or the negative or other thereof or comparable terminology that convey the uncertainty of future events or outcomes. All forward-looking statements are based on current expectations and projections of future events. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

Forward-looking statements are not guarantees of performance. You should understand that the factors discussed in Item 1A of Part I of this Report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Actual results could differ materially from those stated or implied by our forward-looking statements, due to risks and uncertainties associated with our business or under different assumptions or conditions. You should not place undue reliance on any of these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	4
Item 1A.	Risk Factors	15
Item 1B.	Unresolved Staff Comments	28
Item 2.	Properties	29
Item 3.	Legal Proceedings	30
Item 4.	Mine Safety Disclosures	31
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	32
Item 6	Selected Financial Data	35
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	55
Item 8.	Financial Statements and Supplementary Data	56
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	56
Item 9A.	Controls and Procedures	57
Item 9B.	Other Information	57
PART III		
Item 10.	Director, Executive Officers and Corporate Governance	58
Item 11.	Executive Compensation	58
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	58
Item 13.	Certain Relationships and Related Transactions, and Director Independence	58
Item 14.	Principal Accountants Fees and Services	58
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	59

PART I
ITEM 1. Business

Unless the context otherwise requires, the terms "Company," "MGAM," "Multimedia Games," "we," "us," and "our" include Multimedia Games Holding Company, Inc. and its wholly-owned subsidiaries: Multimedia Games, Inc., MGAM Technologies, LLC, MegaBingo International, LLC, Multimedia Games de Mexico 1, S. de R.L. de C.V., Multimedia Games de Mexico, S. de R.L. de C.V., and Servicios de Wild Basin S. de R.L. de C.V. Our executive offices are located at 206 Wild Basin Rd., Bldg. B, Fourth Floor, Austin, Texas, 78746, and our telephone number is (512) 334-7500.

FORWARD-LOOKING STATEMENTS

The following discussion and analysis contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in the cautionary note regarding forward looking statements above and "Part I - Item 1A. Risk Factors" included elsewhere in this Report.

GENERAL

The Company designs, manufactures and supplies gaming machines and systems to commercial and Native American casino operators in North America, as well as, domestic and selected international lottery operators, and commercial bingo gaming facility operators. The Company's revenues are generated from the operation of gaming machines in revenue-sharing arrangements and from the sale of gaming machines and systems that feature proprietary and licensed game themes. Multimedia Games places its revenue-sharing machines and sells its gaming machines and systems in Class II, Class III, video lottery terminal (“VLT”) and electronic bingo settings. The Company uses the term Class III to refer to traditional slot machines in commercial jurisdictions as well as compact games in various tribal gaming jurisdictions. The Class II market is associated with Native American gaming in the United States and is generally understood as the game of chance commonly known as bingo (whether or not electronic, computer, or other technological aids are used in connection therewith).

The Company was incorporated in Texas on August 30, 1991. On April 1, 2011 the Company changed its name to "Multimedia Games Holding Company, Inc." from "Multimedia Games, Inc." Initially, the Company derived the majority of its revenues from the placement of bingo games, including satellite linked, high stakes bingo games and interactive high speed bingo games played on interconnected electronic player stations placed in participating bingo halls owned primarily by Native American tribes. The Company has since expanded its product line and markets served to include gaming facilities operated by commercial entities and Native American tribes.

The Company derives the majority of its gaming revenues from participation arrangements or development and placement fee agreements. Under the participation arrangements, the Company places electronic gaming machines (EGMs) and systems as well as its proprietary and other licensed game content at a customer's facility, with no specific contract period, in return for either a share of the revenues that these EGMs and systems generate or for a fixed daily lease fee. The Company enters into development and placement fee agreements to provide financing for new gaming facilities or for the expansion of existing facilities in exchange for a certain amount of floor space for a contracted period of time. All or a portion of the funds provided under development agreements are reimbursed to the Company, while funding under placement fee agreements is not reimbursed. The Company also generates revenue from the sale of EGMs and systems that feature proprietary game content and licensed game content. Today, the Company continues to increase participation and for-sale revenues by expanding into additional gaming jurisdictions and seeks to expand into other segments of the gaming market. The Company also generates revenues by providing the central determinant system operated by the New York State Division of the Lottery for the video lottery terminals installed at racetracks in the State of New York.

The following table sets forth our end-of-period installed player terminal base by quarter for the five most recent quarters:

Quarter Ended	Oklahoma	Washington	California	New York	Wisconsin	Other(1)(2)	Total Participation Units
9/30/2013	8,216	631	798	669	242	1,884	12,440
6/30/2013	8,248	590	711	699	224	1,691	12,163
3/31/2013	8,173	531	654	699	216	1,439	11,712
12/31/2012	8,044	510	612	699	203	1,120	11,188
9/30/2012	7,922	338	588	631	200	991	10,670

(1) Includes units installed in Alabama, Arizona, Arkansas, Connecticut, Florida, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Minnesota, Mississippi, Nebraska, New Jersey, New Mexico, Nevada, North Dakota, Ohio, Rhode Island and Texas.

(2) Player terminals located in Mexico have been excluded from this data, which included 913 units as of 9/30/2012, 20 units 12/31/2012 and no units for the remaining periods presented.

Additional financial information relating to industry segments appears in Note 1 Significant Accounting Policies in Part IV of this Report.

The Company currently operates in one business segment. For information about our revenues, net income, assets, liabilities, stockholders equity and cash flows, see our Consolidated Financial Statements.

MARKETS

We participate in the Class III and Class II gaming machine markets, as well as the central determinant system market in North America, through participation, or revenue share, and fixed fee arrangements and the sale of proprietary EGMs and systems. As of September 30, 2013, we had a total of 205 gaming licenses in 29 states.

Class III Market

The Class III market is the primary gaming market in North America. In the fiscal year ended September 30, 2013, which we refer to as "fiscal 2013," we derived approximately 57% of our total revenue from Class III, compared to 59% in fiscal 2012 and 62% in fiscal 2011. Class III revenue totaled $108.1 million, $92.9 million and $79.3 million for fiscal years 2013, 2012 and 2011, respectively.

In fiscal 2013, we continued to expand the scope of our proprietary Class III offerings through the development of innovative new products and by seeking licenses in additional Native American and commercial casino jurisdictions. We currently have our proprietary Class III units placed on a recurring revenue arrangement in Native American facilities or commercial casinos in Arizona, California, Connecticut, Florida, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Minnesota, Mississippi, New Jersey, New Mexico, Nevada, New York, Ohio, Oklahoma, Rhode Island, Washington and Wisconsin and are working to secure licensing approval to place our Class III games and systems in other jurisdictions across the United States. Additionally, we have sold proprietary Class III units to Native American and commercial casino customers in Arizona, Arkansas, California, Connecticut, Florida, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Minnesota, Mississippi, North Dakota, New Jersey, New Mexico, Nevada, New York, Ohio, Oklahoma, Washington and Wisconsin, and are seeking licensing approval to sell our Class III games in additional North American jurisdictions.

The licensing process includes specific jurisdictional approvals from the appropriate testing laboratory and from the appropriate regulatory agency. We expect to become licensed in additional commercial jurisdictions and to successfully place and sell our proprietary EGMs to new Class III markets throughout fiscal 2014 and beyond.

Class II Market

In fiscal 2013, we derived approximately 29% of our total revenue from the Class II market, compared to 25% in fiscal 2012 and 22% in fiscal 2011. Class II revenue is generated from the placement of games on participation arrangements and the sale of our proprietary gaming products to Native American casino operators in the United States. Class II revenue totaled $54.7 million, $38.5 million and $28.7 million for fiscal years 2013, 2012 and 2011, respectively.

To service this marketplace, we provide our customers with a variety of linked interactive electronic games and back-office systems. We currently have Class II gaming units deployed in Alabama, Arizona, California, Florida,

Kansas, Louisiana, Michigan, Nebraska, North Dakota, New York, Oklahoma, Texas, Washington and Wisconsin. Our high-speed products feature a mix of proprietary and third party content that enables us to deliver an entertaining gaming experience. We also provide gaming systems that allow us to regularly deploy new game engines and use differing themes around the same underlying base game; our back-office systems enable our customers to track and adjust the performance of their gaming floor to ensure the optimal gaming experience for their customers.

In 2013, the Company increased its investment in the development of new Class II products and plans to further increase its investment in 2014. We believe that this increased investment, coupled with our expertise in Class II gaming, will result in

increased penetration into our core Native American Class II customer base, without jeopardizing our expansion into commercial markets.

Central Determinant System Market

We provide the New York Lottery with an accounting and central determinant system for the video lottery terminals in operation at licensed New York State racetracks. As of September 30, 2013 this central determinant system connected to approximately 17,600 video lottery terminals and electronic table games provided by third party providers and has the ability to interface with, provide outcomes to, and manage the video lottery terminals as well as interface with and manage the electronic table games. Pursuant to our agreement with the New York Lottery, we receive a portion of the network-wide net win (generally, cash in, less prizes paid) per day in exchange for our provision and maintenance of the central determinant system. In June 2009, the New York Lottery awarded us with a seven-year contract extension which extends our agreement through December 2017 and provides us an opportunity to expand our network as the New York Lottery licenses additional race track gaming facilities in the state.

We also provide video lottery technologies to Native American tribes in the state of Washington for which we receive a portion of the revenue generated from the video lottery terminals connected to the system. Revenue generated from our central determinant systems at the New York Lottery and within the state of Washington represents approximately 13% of our total revenue in 2013, compared to 14% in 2012 and 11% in 2011.

PRODUCTS

We provide standalone EGMs and server-based centrally-linked EGMs that feature mechanical reel or video reel game capability along with game content intended to provide exciting, industry-unique gaming experiences. Our wide range of products are designed to operate as standalone machines and as networked gaming systems for Class II gaming machines, video lottery terminals and bingo terminals at commercial and Native American gaming facilities in North America. In addition, we maintain back-office accounting and slot management systems that certain of our customers use to manage their floor operations.

Our range of available, or soon to be released, games include:

Classic Mechanical Reel Games

Our full range of classic 3-reel games provide players with a traditional slot gaming experience. These games leverage new and enduring brands, such as Wild Wild 7's®, Double Cash Money® and Patriot®, among others, and feature a unique take on traditional slot games with eye-catching features.

The Smokin' Hot Jackpots series is a range of 3-reel mechanical reel games that have the added feature of a linked 11-tier progressive game and a unique 24-inch top box that offers 2x Wilds at all bet levels. The series includes six unique games - Top Shelf®, Tiger 7's®, Double Jackpot®, Smokin' 777®, Flamingo 7's® and Gold Standard®.

Video Reel Games

We offer a growing range of video reel games that provide a uniquely entertaining slot gaming experience. These games leverage the Player HD cabinet to deliver eye-catching graphics and full, rich sound. A new addition to the video library are those games showcasing the new Must-Hit Jackpots™ feature, where players can watch as each gameplay brings them closer to the Must-Hit progressive amount and their jackpot prize. One of our most popular and successful games Carnival in Rio® comes loaded with Must-Hit Jackpots and "2 for 1" 100 paylines. Our video reel games include some of the Company's most popular titles and many of our newest hits, such as Arriba™, Zombie Outbreak™, Hotter 'n Hell®, Starry Night® , Brilliant Jewels™, and Blazin' Streak™.

High Rise Games®

The Company's current premium participation slot game series features one of the industry's largest top boxes, a vertically oriented 37" LCD screen that eliminates overhead signage, creates new possibilities for gaming action and offers LED lights around the perimeter of the top box screen as well as unique bonus features.

Jackpot Factory® offers a 5-tier progressive with four bonus features and top screen animation on the 37-inch video top box. One Red Cent Deluxe® and A Girl's Best Friend Deluxe™ are also 5-tier progressives with amounts displayed in the top box. White Hot Progressive™ utilizes the top box screen to display progressive amounts that get "hotter and hotter" as the amounts get bigger and bigger, while High Rollin'™ brings back three of the Company's most popular 3-reel mechanical titles -Lucky Cherry™, Smokin' 777 and Top Shelf - in the bonus rounds to provide traditional appeal in an all-new package. The newest

High Rise Games title, Moby Dick™, brings the classic tale of Ahab and Ishmael's search for the legendary white whale to life with a 5-tier progressive jackpot. In addition, two new games featuring the Crystal Jackpots™ bonus, Orient Express® and Queen of the Desert®, allowing players to open up a world of progressive prizes when they play at max bet.

TournEvent®

Our award-winning slot tournament system is a proven solution that allows operators to switch from in-revenue gaming to out-of-revenue tournaments with the simple click of a mouse. Debuting at the end of 2013, TournEvent will now also offer holiday-themed out-of-revenue games, such as Christmas and Valentine's Day, allowing casino operators even more options. During a tournament, players can monitor their progress within the tournament through the cameras on each of the machines that deliver live video to the player screen and overhead displays. Overhead, the bank signage displays tournament information including the live video, live leaderboards and countdown clocks. Located at the end of the bank, the control center allows operators to easily manage and implement slot tournaments.

Building on the growing number of TournEvent® installations nationwide, 205 systems in 24 states as of September 30, 2013, Multimedia Games successfully executed the first ever National TournEvent of Champions™ which began at participating casinos in March 2013 and ran through September 2013, culminating in a Championship Tournament the week of the Global Gaming Expo in September 2013. The championship featured 88 participants from 77 casinos nationwide competing for $250,000 in prizes, including a $100,000 grand prize. Based on the success of the 2013 National TournEvent of Champions™, the Company plans to offer a similar event in 2014.

Maximum Player Experience™

Scheduled for launch in late fiscal 2014, the Maximum Player Experience (MPX) will represent a new premium participation cabinet and game series that offers a 40" monitor featuring full 1080p HD graphics capabilities, a touchscreen fully-customizable button panel, game-controlled runway lighting and six custom speakers - including two speakers in the fully integrated interactive sound chair with Earthquake Shakers™ technology. The MPX will debut with two new games, Thundering Herd™ and Invasion 2: The Return™, which are both designed specifically to take full advantage of the cabinet's large video screen and interactive sound chair.

Side Action® Series

Offering a twist on popular video reel slot games, the Side Action® series adds a secondary game that plays out simultaneously to the spinning video reel slot game. Side Action® games include Side Action Poker™ (based on a five-card stud poker hand), Side Action Dice™ (based on a six dice roll), Side Action Keno™ (based on a 30 number keno game in which the player selects six numbers) and Side Action Scratch & Win™ (based on instant scratch and win lottery tickets). The first Side Action game to feature progressive jackpots, Seven Seas® with Side Action Dice and its 2-tier progressive, was released in late fiscal 2013, adding a whole new look of winnings to this fully-loaded series.

MANUFACTURING

We currently utilize contract manufacturers to produce the cabinets that make up our electronic gaming machines, as well as other sub-assemblies. At our Austin, Texas assembly facility we assemble the electronic gaming machines, which include the cabinets, computer assemblies, LCD screens, printers, bill acceptors and other wiring and harnesses. During fiscal 2013, the Company opened a second assembly facility in Las Vegas, Nevada to serve demand in the Western markets in North America. We believe that our sources of supply of component parts and raw materials are generally adequate and we have few sole-sourced parts.

SIGNIFICANT CUSTOMERS

A single tribe in Oklahoma, the Chickasaw Nation, accounted for 23% of our total revenue in fiscal 2013, as compared to 30% and 36% of our total revenues in fiscal 2012 and fiscal 2011, respectively. Revenues from the New York Lottery comprised 10% of our total revenue in fiscal 2013, compared to 11% and 8% in fiscal 2012 and fiscal 2011, respectively. The decline in percentage of revenue from these significant customers relates to higher revenues from new and existing customers as we continue to expand our customer base throughout North America.

COMPETITION

We compete in a variety of gaming markets with equipment suppliers of varying size. Competition is generally on the basis of the amount of profits our products generate for our customers relative to the amount of profits generated by our competitors' products as well as the prices and/or fees we and our competitors charge for products and services offered. We believe that in

addition to economic considerations, the most important factor influencing product selection is end user appeal which has a direct effect on the volume of play generated by a product and drives the revenues generated for our customers. To drive customer demand and improve product attractiveness to end users, we are continually working to develop new game themes, gaming engines, hardware platforms and systems, all while working to release these new products to the marketplace in a timely manner.

Going forward, we expect competition for our products and services to increase, which will have a direct impact on our ability to control our pricing model. To offset this increased competition, we plan to regularly introduce a variety of new proprietary stand-alone player terminals and new proprietary content and, when necessary, new gaming platforms and systems that we believe will appeal to our customers' end users. However, we believe that the net revenue retained by our customers from their installed base of player terminals will remain the most significant competitive factor, one that may require us to change the terms of our participation arrangements with customers.

Competition in our industry includes Ainsworth Game Technology, Ltd., Amaya Gaming Group Inc., Aristocrat Technologies, Inc., Aruze Gaming America, Inc., Bally Technologies, Inc., International Game Technology, Konami Co. Ltd, Rocket Gaming Systems LLC, Scientific Games Corporation, SPIELO International, and Video Gaming Technologies, Inc.

RESEARCH AND DEVELOPMENT

We conduct research and development activities primarily to develop new gaming systems, gaming engines, casino data management systems, casino central monitoring systems, video lottery outcome determination systems, gaming platforms and gaming content as well as to add enhancements to our existing product lines. We believe our ability to deliver differentiated, appealing products and services to the marketplace is based on our research and development investments and we expect to continue to make such investments in the future. Research and development costs consist primarily of salaries and benefits, consulting fees and an allocation of corporate facilities costs related to these activities. Once the technological feasibility of a project has been established, it is transferred from research to development and capitalization of development costs begins until the product is available for general release. Research and development expenses were $16.8 million, $15.1 million and $12.9 million for the years ended September 30, 2013, 2012 and 2011, respectively.

INTELLECTUAL PROPERTY

We develop intellectual property in our industry. While we do not believe that any single patent or item of our intellectual property is crucial to our business, we do use a combination of patents, copyrights, trade secrets, trademarks and proprietary information to create, maintain and/or enhance a competitive position, protect our products, and defend against litigious competitors. We have been granted over 181 patents related to games and systems, most of which are unexpired, and have more than 108 patent applications pending in the United States as well as in many foreign countries, including 108 patents issued and 86 patents pending in the United States. 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. We have 278 registered trademarks and 171 trademarks pending in the United States. Under permission or license agreements with third parties, we also sell products covered by independently filed copyrights, trademarks, and/or patents. 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 included in this report.

We rely on patents, copyrights, trademarks, trade secret laws, license agreements and employee nondisclosure agreements to protect our various proprietary rights and technologies. Since these laws and contractual agreements provide us with limited protection, we also actively rely on our proprietary expertise and technological innovation to develop new products and systems in order to create, maintain and/or enhance our competitive position. While we also rely on trade secrets, un-patented know-how and innovation, we cannot be certain that others will not independently develop similar technology or that our secrecy will not be breached. In addition, we rely on intellectual property licenses from one or more third party competitors. As we continue to grow our business with both our existing and new products and technologies, we may face material third party infringement and other claims. See "Part I - Item 1A. Risk Factors."

EMPLOYEES

At September 30, 2013, we had 528 full-time and part-time employees, including 222 engaged in field operations, customer support and manufacturing, 210 in system and game development, 32 in sales and marketing, 20 in accounting and finance and 44 in other general administrative and executive functions. We do not have a collective bargaining agreement with any of our domestic employees and we believe our relationship with our current employees is good.

FOREIGN AND DOMESTIC OPERATIONS AND GEOGRAPHIC DATA

The United States represents the Company's largest geographic market. Approximately 99% of the Company's revenue in fiscal 2013 came from customers inside the United States, compared to 98% and 92% in fiscal 2012 and fiscal 2011, respectively. All of the Company's long-lived assets outside of the United States were immaterial for each of fiscal 2013, 2012 and 2011. Outside the United States, the Company maintains an electronic lottery system for the Electronic Instant Lottery system in Israel, and in early fiscal 2013, the Company terminated its operation in Mexico following the sale of its existing EGMs to its largest customer in the market. During fiscal 2011, the Company recorded revenue from a fixed-price contract with the Ontario Lottery and Gaming Commission in Canada. Revenue from these international operations provided 1% of our total revenue in fiscal 2013, compared to 2% in fiscal 2012 and 8% in fiscal 2011.

GAMING REGULATIONS AND LICENSING

The gaming industry is highly regulated, and we must maintain our licenses and pay gaming taxes to continue our operations. The manufacture and distribution of gaming devices and systems are subject to extensive regulation under the laws, rules, and regulations of the jurisdiction where they are located. These laws, rules, and regulations generally concentrate on the responsibility, financial stability, and character of the owners, managers, and persons with financial interest in the gaming operations. Violations of laws in one jurisdiction could result in disciplinary or other actions in other jurisdictions.

Our business is subject to various federal, state, and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our operating results.

We hold 205 gaming licenses, which allow us to conduct business in commercial and tribal jurisdictions across the United States. While the regulatory requirements vary from jurisdiction to jurisdiction, most require:

- Documentation of qualification, including evidence of financial stability;
- Findings of suitability for the Company, as well as its officers and directors; and
- Gaming equipment and game approvals following testing and certification by testing labs.

Laws of various gaming regulatory agencies serve to protect the public and ensure that gaming-related activity is conducted honestly and free from corruption. Regulatory oversight also ensures that local authorities receive the appropriate amount of gaming tax revenues. As such, our financial systems and reporting functions are required to demonstrate high levels of detail and integrity.

We are working to expand our total addressable market by targeting new gaming jurisdictions across the United States, including Arizona, California, Florida, Idaho, Illinois, Michigan, Mississippi, Louisiana, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania and Washington. To accomplish this goal we are currently pursuing new licenses in a number of states, including Colorado, Maryland, New Jersey, Oregon (tribal), and South Dakota (tribal).

In general, we are subject to a wide range of federal, state and Native American laws and regulations that affect our general commercial relationships with our Native American tribal customers and the products and services we provide. As we more fully enter the traditional commercial gaming marketplace, we will also be subject to increased

state regulatory requirements that will require more in-depth state-by-state licensing and oversight. Furthermore, we may also be subject to a range of state and local regulations in the markets where we seek to provide products and services for charity bingo markets.

Federal Regulation

At the federal level, we are subject to two key pieces of legislation. Our Native American customers are regulated by the National Indian Gaming Commission (NIGC), which was established by the Indian Gaming Regulatory Act of 1988 (IGRA). The NIGC has regulatory authority over certain aspects of Native American gaming and defines the boundaries of our dealings with the Native American marketplace and the level of regulatory authority to which these games are subject.

The Federal Gambling Devices Act of 1962 (the Johnson Act) requires us to register annually with the Criminal Division of the United States Department of Justice and requires a wide variety of record-keeping and equipment-identification efforts on our part. Registration is required in order for us to sell, distribute, manufacture, transport and/or receive gaming equipment, machines

or components across state lines. If we fail to comply with the requirements set forth under the Johnson Act, we could become subject to a variety of penalties, including, but not limited to, the seizure and forfeiture of equipment.

State Licensing

We are subject to licensing requirements in each state in which we seek to conduct business. We are licensed in several commercial gaming jurisdictions including: Arkansas, Florida, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Mississippi, New Mexico, Nevada, Ohio, Oklahoma, and Pennsylvania. Additionally, in the states of Colorado and New Jersey, we are currently undergoing the licensing application process. Each state license is considered to be a privilege license and is subject to regulatory, technical, and statutory requirements.

Nevada Government Regulation. The manufacture, sale, lease, and distribution of gaming devices and cashless wagering, mobile gaming, and interactive gaming systems in Nevada are subject to the Nevada Gaming Control Act and the regulations promulgated thereunder, collectively referred to herein as the Nevada Act, and various local regulations. Our gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission, referred to herein as the Nevada Commission, the Nevada State Gaming Control Board, referred to herein as the Nevada Board, and various county and city licensing agencies, as applicable. We refer to the Nevada Commission, the Nevada Board, and the local authorities as the Nevada Gaming Authorities.

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy that are concerned with, among other things:

- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- the establishment and maintenance of responsible accounting practices;
- the maintenance of effective controls 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;
- the prevention of cheating and fraudulent practices; and
- providing a source of state and local revenues through taxation and licensing fees.

Any change in such laws, regulations and procedures could have an adverse effect on our future operating results.

Any company that sells, leases, and distributes gaming devices in Nevada is required to be licensed by the Nevada Gaming Authorities, and Multimedia Games, Inc., our subsidiary that sells, leases, or distributes gaming devices or systems in Nevada, is licensed by the Nevada Gaming Authorities. We have also been registered as the stockholder of the subsidiary gaming licensee, when relevant. All gaming devices manufactured for use or play in Nevada must be approved by the Nevada Commission prior to distribution or being exposed for play. Before associated gaming equipment, as defined in the Nevada Act, can be distributed in Nevada, such equipment must be administratively approved by the chairman of the Nevada Board.

We are required to be registered by the Nevada Commission as a publicly-traded corporation, and as such, we are required to periodically submit detailed financial and operating reports to the Nevada Commission and furnish any other information that the Nevada Commission may require. No person may become a shareholder, director, or officer

of, or receive any percentage of profits from the licensed subsidiaries without first registering with or obtaining necessary licenses or approvals from the Nevada Gaming Authorities. Additionally, local authorities have taken the position that they have the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming licensee. The Company and our subsidiary have obtained from the Nevada Gaming Authorities the various registrations, approvals, permits, findings of suitability, or licenses required in order to engage in gaming activities in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, the Company or the licensed subsidiary to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors, and certain key employees of the licensed subsidiary must file applications with the Nevada Gaming Authorities and may be required to be licensed by the Nevada Gaming Authorities. Officers, directors, and key employees of the Company who are actively and directly involved in the gaming activities of the licensed subsidiary may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an

application for licensing or a finding of suitability for any cause they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. The applicant for licensing or a finding of suitability, or the gaming licensee by which the applicant is employed or for whom the applicant serves, must pay all the costs of the investigation. Changes in licensed positions must be reported to the Nevada Gaming Authorities, and in addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have jurisdiction to disapprove a change in a corporate position.

If the Nevada Gaming Authorities were to find an officer, director, or key employee unsuitable for licensing with us or the licensed subsidiary, the Company or the licensed subsidiary would have to sever all relationships with that person. In addition, the Nevada Commission may require us or the licensed subsidiary to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada. As a result of these rules, and similar rules in other states in which we have gaming licenses, the Company amended its bylaws, in September 2012, to implement appropriate qualifications for directors and director nominees. The bylaws give our Board of Directors discretion to determine whether a proposed nominee would put the Company at risk of losing or suffering prejudice to a gaming license, of being unable to reinstate a prior gaming license, or of being unable to obtain a new gaming license. In addition, in order to be qualified to serve as a director, a person may not be an “Unsuitable Person” as defined in the bylaws, must satisfy the director qualification requirements of all gaming authorities, and must annually submit an irrevocable resignation that will be effective if a gaming authority determines that such person's membership on the Board of Directors would cause the Company to lose a gaming license, be unable to reinstate a prior gaming license, or be unable to obtain a new gaming license.

We are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all of the Company's and the licensed subsidiary's material loans, leases, sales of securities, and similar financing transactions must be reported to or approved by the Nevada Commission.

If the Nevada Commission determined that we or the licensed subsidiary violated the Nevada Act, it could limit, condition, suspend, or revoke, subject to compliance with certain statutory and regulatory procedures, our gaming license and those of the licensed subsidiary. In addition, the Company and the licensed subsidiary and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act at the discretion of the Nevada Commission.

Any beneficial holder of our voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have his or her suitability as a beneficial holder of the voting securities determined if the Nevada Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires more than 5% 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% 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 the written notice requiring such filing. Under certain circumstances, an “institutional investor” as defined in the Nevada Act, which acquires more than 10% but not more than 25% of any class of our voting securities, may apply to the Nevada Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes only. An institutional investor that has obtained a waiver may, in certain circumstances, own up to 29% of our voting securities for a limited period of time.

An institutional investor will be deemed to hold voting securities for investment purposes if it acquires and holds the voting securities in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of our board of directors, any change in our corporate charter, bylaws, management, policies, or operations of us or our gaming subsidiary, or any other action that the Nevada Commission finds to be inconsistent with holding our voting securities for investment purposes only. Activities that are not deemed to be inconsistent with holding voting securities for investment purposes only include:

- voting on all matters voted on by stockholders;
- making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and
- such other activities as the Nevada Commission may determine to be consistent with such investment intent.

If the beneficial holder of voting securities who must be found suitable is a corporation, partnership, or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any shareholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of our common stock beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. We will be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a shareholder or to have any other relationship with us or our licensed subsidiary, we or the licensed subsidiary:

- pay that person any dividend or interest upon any of our voting securities;
- allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person;
- pay remuneration in any form to that person for services rendered or otherwise; or
- fail to pursue all lawful efforts to require such unsuitable person to relinquish his or her voting securities including if necessary, the immediate purchase of the voting securities for cash at fair market value.

The Nevada Commission may, in its discretion, require the holder of any debt security of the Company to file an application, be investigated, and be found suitable to hold the debt security. If the Nevada Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Act, the Company can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Commission, it:

- pays to the unsuitable person any dividend, interest, or any distribution whatsoever;
- recognizes any voting right by such unsuitable person in connection with such securities;
- pays the unsuitable person remuneration in any form; or
- makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

We are required to maintain a current stock ledger that may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner.

We may not make a public offering of any securities without the prior approval of the Nevada Commission if the securities or the proceeds therefrom are intended to be used to construct, acquire, or finance gaming facilities in Nevada, or to retire or extend obligations incurred for those purposes or for similar purposes. An approval, if given, does not constitute a finding, recommendation, or approval by the Nevada Commission or the Nevada Board as to the accuracy or adequacy of the prospectus or the investment merits of the securities. Any representation to the contrary is unlawful.

On September 22, 2011, the Nevada Commission granted the Company prior approval to make public offerings for a period of three years, subject to certain conditions, referred to herein as the “shelf approval.” The shelf approval also

includes approval for the Company to place restrictions on the transfer of any equity security issued by the licensed subsidiary and to enter into agreements not to encumber such securities, pursuant to any public offering made under the shelf approval. However, the shelf approval may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada Board. The shelf approval does not constitute a finding, recommendation or approval by the Nevada Commission or the Nevada Board as to the accuracy or adequacy of the prospectus or other disclosure document by which securities are offered or the investment merits of the securities offered. Any representation to the contrary is unlawful.

Changes in control of the Company through merger, consolidation, stock, or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby he or she obtains control, may not occur without the prior approval of the Nevada Commission. Entities seeking to acquire control of the Company must satisfy the Nevada Board and the Nevada Commission concerning a variety of stringent standards prior to assuming control of us. The Nevada Commission may also require controlling stockholders, officers, directors, and other persons having a material relationship or involvement with the entity proposing to acquire control to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities, and corporate defensive tactics affecting Nevada gaming licensees, and registered corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to:

- assure the financial stability of corporate gaming operators and their affiliates;
- preserve the beneficial aspects of conducting business in the corporate form; and
- promote a neutral environment for the orderly governance of corporate affairs.

Approvals are, in certain circumstances, required from the Nevada Commission before we can make exceptional repurchases of voting securities above the current market price 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 the Company's board of directors in response to a tender offer made directly to the Company's shareholders for the purpose of acquiring control of it.

License fees and taxes are payable to the State of Nevada and to local authorities, as applicable. Depending upon the particular fee or tax involved, these fees and taxes are payable monthly, quarterly, or annually and may be based upon the number of gaming devices operated.

As the Company or our licensed subsidiary is involved in gaming ventures outside of Nevada (foreign gaming), a deposit with the Nevada Board is required and a revolving fund in the amount of $10,000 to pay the expenses of investigation by the Nevada Board of our participation in such foreign gaming must be maintained thereafter. The revolving fund is subject to increase or decrease at the discretion of the Nevada Commission. Thereafter, the Company or our licensed subsidiary must also comply with certain reporting requirements imposed by the Nevada Act. The Company or our licensed subsidiary would also be subject to disciplinary action by the Nevada Commission if we or the licensed subsidiary:

- knowingly violated any laws of the foreign jurisdiction pertaining to the foreign gaming operation;
- failed to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations;
- engaged in any activity or enter into any association that is unsuitable because it poses an unreasonable threat to the control of gaming in Nevada, reflects or tends to reflect discredit or disrepute upon the State of Nevada or gaming in Nevada, or is contrary to the gaming policies of Nevada;
- engaged in any activity or enter into any association that interferes with the ability of the State of Nevada to collect gaming taxes and fees; or
- employed, contracted with or associated with any person in the foreign gaming operation who has been denied a license or a finding of suitability in Nevada on the ground of personal unsuitability, or who has been found guilty of cheating at gambling.

Tribal-State Compacts and Tribal Regulation

Native American gaming is subject to the review of the NIGC. Native American tribes must adopt and submit for NIGC approval the ordinances that regulate their gaming activities. Pursuant to the requirements of IGRA, our tribal customers require the tribe to have the sole proprietary interest in their gaming activities. Because federally recognized Native American tribes are independent governments with sovereign powers, Native American tribes can enact their own laws and regulate gaming operations and contracts, and generally enjoy sovereign immunity from lawsuits similar to that of the individual states and the United States. See "Part I - Item 1A. Risk Factors."

Class III gaming on Native American tribal lands is subject to the negotiation of a compact between the tribe and the state in which they plan to operate a gaming facility. These tribal-state compacts typically include provisions entitling the state to receive a portion of the tribe's gaming revenues. While tribal state compacts are intended to document the agreement between the state and a tribe, these tribal state compacts can be subject to disputes relative to permitted Class III gaming operations. Currently, we operate in three states where compacts significantly affect our business: Oklahoma, Washington, and to a lesser extent, California.

Oklahoma. In 2004, the Oklahoma Legislature authorized certain forms of gaming at racetracks and gaming at tribal facilities pursuant to tribal-state compacts. While the racetrack facilities can operate a limited number of instant and bonanza-style bingo games and electronic amusement games, the compacts between the Native American tribes and the state allow tribal facilities to include an unlimited number of electronic instant and bonanza-style bingo games, electronic amusement games and non-house-banked tournament card games. Vendors placing games at any of these facilities are required to gain state licensing approval as well as licensing approval from each individual tribe. Furthermore, all electronic games must receive certification from independent testing laboratories and are subject to technical specifications maintained by the Oklahoma Horse Racing Commission and the individual tribal gaming authorities.

Washington. Our activities in Washington State are governed pursuant to compacts between the state government and Native American tribes located in Washington. We offer a range of Class II and Class III player terminals to our customers in Washington that are operated in conjunction with local central determinant systems as described above. Compacts between the state and tribes are recognized by IGRA to permit Class III gaming.

California. Our activities in California are governed pursuant to compacts between the state government and Native American tribes located in the state. These compacts are recognized by IGRA and permit the tribes to offer both Class II and Class III gaming machines within their gaming facilities. We offer a range of Class II linked interactive electronic games as well as Class III gaming machines to our customers in California.

Charity Regulation

We have historically supplied bingo games and systems to nonprofit organizations that operate these games for charitable, educational and other lawful purposes. Bingo for charity is not subject to a nationwide regulatory system such as the system created by IGRA to regulate Native American gaming and, as a result, regulation for this market is generally on a state-by-state basis though, in some cases, it is regulated by county commissions or other local government authorities. Historically, we have offered charity bingo gaming systems in Alabama pursuant to constitutional amendments and county regulations or other local government authority regulations, but during fiscal 2011, due to regulatory changes in the State of Alabama, the Company removed all of its charity bingo machines from charity customer facilities in the State of Alabama.

International Regulation

We have historically operated in one major international market, Mexico. We began placing bingo games in the Mexican market in 2006 under the jurisdiction of the Ministry of the Interior (Secretaría de Gobernación), a branch of the federal government of Mexico. The entities and individuals who have obtained bingo permits may only operate player terminals that comply with Mexican law and regulations. Accordingly, our contracts required us to provide player terminals that comply with said laws and regulations, and therefore, we submitted our games for compliance certification to an independent lab prior to placing them in a facility of a permit holder. In early fiscal 2013, the Company terminated its operation in Mexico following the sale of its terminals to its primary customer in the market.

ENVIRONMENTAL MATTERS

We are not aware of any federal, state or local environmental laws or regulations that will materially affect our earnings or competitive position or result in material capital expenditures. However, we cannot predict the effect on operations of possible future environmental legislation or regulations. During fiscal 2013, there were no material capital expenditures for environmental control facilities, and no such material expenditures are anticipated.

Available Information. Through the Investor Relations link on our website (www.multimediagames.com), we make available free of charge to the public, as soon as reasonably practicable after such information has been filed with the

Securities and Exchange Commission, or SEC, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act, as well as other filings from time to time. The public may read and copy any materials we file with or furnish to the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, on official business days during the hours of 10:00 am to 3:00 pm. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Furthermore, the SEC maintains a free website (www.sec.gov) which includes reports, proxy and information statements, and other information regarding us and other issuers that file electronically with the SEC. Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K. Additionally, we make available free of charge on our internet website: our Code of Business Conduct and Ethics; the charter of our Nominating and Governance Committee; the charter of our Compensation Committee; and the charter of our Audit Committee.

ITEM 1A. RISK FACTORS

Investing in our common stock involves risks. Prospective investors in our common stock should carefully consider, among other things, the following risk factors in connection with the other information and financial statements contained in this Annual Report, including "PART II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to making an investment decision. We have identified the following important factors that could cause actual results to differ materially from those projected in any forward looking statements we may make from time to time.

We operate in a continually changing business environment in which new risk factors emerge from time to time. We can neither predict these new risk factors, nor can we assess the impact, if any, of these new risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward looking statement. If any of these risks, or combination of risks, actually occur, our business, financial condition and results of operations could be seriously and materially harmed, and the trading price of our common stock could decline. All forward-looking statements in this document are based on information available to us as of the date hereof, and we assume no obligations to update any such forward-looking statements.

We receive a considerable amount of revenue from one customer.
For the fiscal years ended September 30, 2013 and 2012, approximately 23% and 30%, respectively, of our total net revenues (net of accretion) were from one customer. Our relationship with that customer is largely governed by multiple development or placement fee agreements. Under our development and placement fee agreements, we secure a long-term revenue share percentage and a fixed number of player terminal placements in our customer's facility, in exchange for funding the development and construction of the gaming facility. Some of these agreements are set to terminate pursuant to their terms during the next several years and we may not be able to renegotiate new or substantially similar agreements with that customer. A material decrease in our revenue share with our largest customer would have a material and adverse effect upon our financial condition and results of operations.

We have a significant concentration of revenues in Oklahoma and changes in economic, regulatory and licensing conditions in Oklahoma may adversely affect our business.
For the fiscal years ended September 30, 2013 and 2012, approximately 33% and 40%, respectively, of our total net revenues (net of accretion) were from Native American tribes located in Oklahoma. A significant concentration of our revenue comes from Oklahoma, and local economic, regulatory and licensing changes may adversely affect our Oklahoma customers, and therefore our development and placement fee agreements and our business, disproportionately to changes in national economic conditions, including adverse economic declines or slower economic recovery from prior declines. While we continue to seek to diversify the markets in which we operate, and to expand in the Oklahoma market, the loss of Oklahoma tribes as customers, including our largest customer, would have a material and adverse effect upon our financial condition and results of operations. The State of Oklahoma permits other types of gaming, both at Native American tribal gaming facilities and at Oklahoma racetracks, and many of our competitors now seek entry into this market. The loss of significant market share to these new gaming opportunities or the increased presence of our competitors' products in Oklahoma could also have a material adverse effect upon our financial condition and results of operations.

We are subject to extensive regulation in the State of Nevada and other jurisdictions and the cost of compliance or failure to comply with such regulations may adversely affect our business, and may limit our existing operations or have a negative impact on our ability to grow, which could be materially adverse to our business and prospects.
Our operation of gaming activities, including the sale and manufacture of gaming devices, is subject to extensive regulation by the jurisdictions where we operate. These laws, regulations, and ordinances vary from jurisdiction to jurisdiction, but generally concern the responsibility, financial stability, and character of our owners, officers, and directors, as well as those persons financially interested or involved in gaming operations. As such, gaming regulators

can require us to cease operations in that jurisdiction. In addition, unsuitable activity on our part or on the part of our subsidiaries or affiliates in any jurisdiction could have a negative effect on our ability to continue operating in other jurisdictions. In addition, we are subject to the possible increase at any time by various state and federal legislatures and officials of gaming taxes or fees, which could adversely affect our results. For a summary of gaming regulations that could affect our business, see "Part I - Item 1. Business - Gaming Regulation and Licensing."

Our ability to conduct our existing traditional business, expand operations, develop and distribute new products, games and systems, and expand into new gaming markets is also subject to significant federal, state, local, Native American, and foreign regulations. In the United States and many other countries, gaming must be expressly authorized by law. Once authorized, such activities are subject to extensive and evolving governmental regulation. While we seek to comply with the standards and regulations set forth by each jurisdiction, a government agency or court could disagree with our interpretation of these standards and regulations, could

determine that the manufacture and use of certain of our electronic player terminals, and perhaps other key components of our gaming systems that rely to some extent upon electronic equipment to run a game, constitute illegal gaming. An adverse regulatory or judicial determination regarding the legal status of our products could have material adverse consequences for us in other jurisdictions, including with gaming regulators, and our business, operating results and prospects could suffer and we and our officers and directors could be subject to significant fines and penalties. Furthermore, the failure to become licensed, or the loss or conditioning of a license, in one market may have the adverse effect of preventing licensing in other markets or the revocation of licenses we already maintain.

As we expand into new markets, we expect to encounter business, legal, operational and regulatory uncertainties as well as additional responsibilities. As we enter new jurisdictions, we are subject to increasing legal, regulatory and reporting requirements that will require substantial additional resources, such as new licenses, permits and approvals, including third-party certifications that our games comply with a particular jurisdiction's stated regulations, in order to meet our expectations for new market entry, and such licenses, permits or approvals may not be timely granted to us, or granted to us at all, which could have a material effect on our business in general and new market entry specifically. Obtaining and maintaining all required licenses, findings of suitability, registrations, permits or approvals is time consuming, expensive, and potentially distracting to management. As we enter new jurisdictions, our reporting systems will need to be developed and/or updated, and we may fail to provide timely or adequate notifications or reporting requirements within these new jurisdictions, which could have adverse regulatory consequences for us in that, or in other, jurisdictions, which could affect our business. In addition, entry into new markets may require us to make changes to our gaming systems to ensure that they comply with applicable regulatory requirements. We may also encounter additional legal and regulatory challenges that are difficult or impossible to foresee and which could result in an unforeseen adverse impact on planned revenues or costs associated with the new market opportunity. If we are unable to effectively develop and operate within these new markets, then our business, operating results and financial condition would be impaired.

Generally, our placement of systems, games and technology into new market segments involves a number of business uncertainties, including:

- whether the technical platform on which our gaming units, systems, and products are based will comply or can be modified to comply with the minimum technical requirements for the each of the identified new gaming markets;
- whether we are able to successfully pass required field trials and comply with the initial game/system installation requirements for each new jurisdiction;
- whether our resources and expertise will enable us to effectively operate and grow in such new markets, including meeting regulatory requirements;
- whether our internal processes and controls will continue to function effectively within these new segments;
- whether we have enough experience to accurately predict revenues and expenses in these new markets;
- whether the diversion of management attention and resources from our traditional business, caused by entering into new market segments, will have harmful effects on our traditional business;
- whether we will be able to successfully compete against larger companies who dominate the markets that we are trying to enter; and
- whether we can timely perform under our agreements in these new markets because of other unforeseen obstacles.

In addition, the suspension, revocation, nonrenewal or limitation of any of our licenses would have a material adverse effect on our business operations, financial condition, results of operations and our ability to maintain key employees. The gaming authorities may deny, limit, condition, suspend or revoke a gaming license or related approval for violations of applicable gaming laws and regulations and may impose substantial fines and take other actions, any one of which could have a significant adverse effect on our business, financial condition, and results of operations. Further, changes in existing gaming laws or regulations or new interpretations of existing gaming laws may hinder or prevent us from continuing to operate in those jurisdictions where we currently do business, which would harm our operating results. In particular, the enactment of unfavorable legislation or government efforts affecting or directed at manufacturers or gaming operators, such as referendums to increase gaming taxes or requirements to use local distributors, would likely have a negative impact on our operations. Moreover, in addition to the risk of enforcement action, we are also at risk of loss of business reputation in the event of any potential legal or regulatory investigation

whether or not we are ultimately accused of or found to have committed any violation.

In addition to gaming regulations, we are also subject to various federal, state, local, and foreign laws and regulations affecting businesses in general. Such laws and regulations could change or be interpreted differently in the future, or new laws and regulations could be enacted, which could affect financial performance.

Our ability to effectively compete in Native American gaming markets is vulnerable to legal and regulatory uncertainties, including the ability to enforce contractual rights on Native American land.

Historically, we have derived a majority of our revenue from the placement of Class II player terminals and systems for gaming activities conducted on Native American lands. Because federally recognized Native American tribes are independent governments with sovereign powers, Native American tribes can enact their own laws and regulate gaming operations and contracts. Native American tribes maintain their own governmental systems and often their own judicial systems and have the right to tax persons and enterprises conducting business on Native American lands, and also have the right to require licenses and to impose other forms of regulation and regulatory fees on persons and businesses operating on their lands. In the absence of a specific grant of authority by Congress, states may regulate activities taking place on Native American lands only if the Native American tribe has a specific agreement or compact with the state. Our contracts with Native American tribal customers normally provide that only certain provisions will be subject to the governing law of the state in which a Native American tribe is located. However, these choice-of-law clauses may not be enforceable.

Additionally, Native American tribes generally enjoy sovereign immunity from lawsuits similar to that of the individual states and the United States. Before we can sue or enforce contract rights with a Native American tribe, or an agency or instrumentality of a Native American tribe, the Native American tribe must effectively waive its sovereign immunity with respect to the matter in dispute, which we will not always be able to obtain. For example, our largest customer, who accounts for 23% of our total net revenues (net of accretion) as of September 30, 2013, has not given us a waiver of sovereign immunity. Without a limited waiver of sovereign immunity, or if such waiver is held to be ineffective, we could be precluded from judicially enforcing any rights or remedies against a Native American tribe, including the right to enter Native American lands to retrieve our property in the event of a breach of contract by the tribe party to that contract. Even if the waiver of sovereign immunity by a Native American tribe is deemed effective, there will be an issue as to the forum in which a lawsuit can be brought against the Native American tribe. Federal courts are courts of limited jurisdiction and generally do not have jurisdiction to hear civil cases relating to Native American tribes and we may be unable to enforce any arbitration decision effectively.

Our agreements with Native American tribes are subject to review by regulatory authorities. For example, our development agreements are subject to review by the NIGC and any such review could require substantial modifications to our agreements or result in the determination that we have a proprietary interest in a Native American tribe’s gaming activity which could materially and adversely affect the terms on which we conduct our business. The NIGC has previously expressed the view that some of our development agreements could be in violation of the requirements of the Indian Gaming Regulatory Act of 1988 and Native American tribal gaming regulations, which state that the Native American tribes must hold “sole proprietary interest” in the Native American tribes’ gaming operations, which presents additional risk for our business. The NIGC may also reinterpret applicable laws and regulations, which could affect our agreements with Native American tribes.

We could be affected by alternative interpretations of the Gambling Devices Act, 15 U.S.C. § 1171, et. seq., or the "Johnson Act," as the customers of our Class II games, the Native American tribes, could be subject to significant fines and penalties if it is ultimately determined they are offering an illegal game, and an adverse regulatory or judicial determination regarding the legal status of our products could have material adverse consequences for our business, operating results and prospects.

Government enforcement, regulatory action, judicial decisions, and proposed legislative action have in the past, and will likely continue to affect our business, operating results and prospects in Native American tribal lands. The legal and regulatory uncertainties surrounding our Native American tribal agreements could result in a significant and immediate adverse impact on our business and operating results. Additionally, such uncertainties could increase our cost of doing business and could take management’s attention away from operations. The trading price of our common stock has in the past been, and may in the future be, subject to significant fluctuations based upon market perceptions of the legal status of our products and our ability to compete in all markets, including Native American markets. Regulatory action against our customers or equipment in these or in other markets could result in machine seizures and significant revenue disruptions, among other adverse consequences. Moreover, Native American tribal policies and procedures, as well as tribal selection of gaming vendors, are subject to the political and governance

environment within each Native American tribe. Changes in tribal leadership or tribal political pressure can affect our business relationships within Native American markets.

We do not rely upon the term of our customer contracts to retain the business of our customers.

Our contracts with our customers are generally on a month-to-month basis, except for customers with whom we have entered into development and placement fee agreements. We do not rely upon the stated term of our customer contracts to retain the business of our customers. We rely instead upon providing competitive player terminals, games and systems to give our customers the incentive to continue doing business with us. At any point in time, a significant portion of our business is subject to nonrenewal, which may materially and adversely affect our earnings, financial condition and cash flows. In addition, certain of our customer contracts have "buy out" provisions enabling our customer to purchase machines formerly provided to them under revenue participation arrangements. To the extent our customers exercise their buy out rights pursuant to these provisions, we recognize revenue from equipment sales in the current period while losing future participation or lease revenue from purchased machines.

This could have the effect of reducing our overall future revenues from these customers and thereby adversely affect our future operating results.

State compacts with our existing Native American tribal customers to allow Class III gaming could reduce demand for our Class II games and our continued entry into the Class III market may be difficult as we compete against larger companies in the Class III market.

Certain of our Class II Native American tribal customers have entered into compacts with the states in which they operate to permit the operation of Class III games. While we seek to also provide Class II alternatives in these markets, we believe the number of our Class II game machine placements in those customers' facilities could decline, and our operating results could be materially and adversely affected. As our Native American tribal customers continue to transition to gaming under compacts with their respective states, we continue to face significant uncertainty in this market that makes our business in this market difficult to manage and predict and we may be forced to compete with larger companies that specialize in Class III gaming as these companies move into these newly created Class III compact markets. We believe the establishment of state compacts depends on a number of political, social, and economic factors that are inherently difficult to ascertain. Accordingly, although we attempt to closely monitor state legislative developments that could affect our business, we may not be able to timely predict if or when a compact could be entered into by one or more of our Native American tribal customers. For example, in Oklahoma, we anticipate that the introduction of Class III games will continue to pressure our market and revenue share percentages and may result in a shift in the market from revenue share arrangements to a sale-based model. In addition, the introduction of Class III games into New York could have an adverse effect on our operating results in the State of New York as we provide the central determinant system for Class II games within the State of New York.

Gaming laws and regulations may require our shareholders to undergo a suitability investigation, which may result in redemption of their securities.

In some jurisdictions, the gaming authority may determine that any of our officers, directors, key employees, shareholders or any other person is unsuitable to act in such capacity. There can be no assurance that we will obtain all the necessary licenses and approvals or that our officers, directors, key employees, their affiliates and certain other shareholders will satisfy the suitability requirements in each jurisdiction in which we seek to operate. The failure to obtain such licenses and approvals in one jurisdiction may affect our licensure and/or approvals in other jurisdictions. In addition, a significant delay in obtaining such licenses and approvals could have a material adverse effect on our business prospects.

A gaming authority may, in its discretion, require our shareholders to file applications, be investigated, and be found suitable to own our stock if it has reason to believe that the security ownership would be inconsistent with the declared policies of the regulatory body. Further, the costs of any investigation conducted by the gaming authority under these circumstances must be paid by the applicant and refusal or failure to pay these charges may constitute grounds for a finding that the applicant is unsuitable to own the securities. If the gaming authority determines that a person is unsuitable to own our stock, then, we can be sanctioned, including the loss of our approvals, if, without the prior approval of the gaming authority, we:

- pay to the unsuitable person any dividend, interest or any distribution whatsoever;
- recognize any voting right by the unsuitable person;
- pay the unsuitable person remuneration in any form; or
- make any payment to the unsuitable person including any principal, redemption, conversion, exchange or similar payment.

While our shareholders have approved a right to redeem shares of an unsuitable shareholder and our Articles of Incorporation consequently were amended, a finding of unsuitability could have a material adverse effect on our business. If a gaming authority were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with us, we would have to sever all relationships with that person. Furthermore, the gaming authority may require us to terminate the employment of any person who refuses to file appropriate applications. Either result could materially adversely affect our gaming operations.

We may not be successful in protecting our intellectual property rights, or in avoiding claims that either we are infringing upon the intellectual property rights of others or that our intellectual property is not valid and enforceable. We rely upon patent, copyright, trademark and trade secret laws, license agreements, and employee nondisclosure agreements to protect our proprietary rights and technology, but these laws and contractual provisions provide only limited protection. We rely to a greater extent upon proprietary know how and continuing technological innovation to maintain our competitive position. Insofar as we rely on trade secrets, unpatented know how and innovation, others may be able to independently develop similar technology, or our secrecy could be breached. The issuance of a patent to us does not necessarily mean that our technology or products do not infringe upon the intellectual property rights of others. As we enter into new markets by leveraging our existing

technology, and by developing new technology and new products, we could become subject to infringement claims from other parties, many of whom have significantly greater resources than we do. Problems with patents or other rights could increase the cost of our products, or delay or preclude new product development and commercialization. If infringement claims against us are valid, we may seek licenses that might not be available to us on acceptable terms or at all. Litigation would be costly and time consuming, but may become necessary to protect our proprietary rights or to defend against infringement claims. We could incur substantial costs and diversion of management resources in the defense of any claims relating to the proprietary rights of others or in asserting claims against others. These expenses could have an adverse effect on our future cash flows and results of operations. Our assessment of current intellectual property litigation could change in light of the discovery of facts not presently known to us, determinations by judges, juries or others that do not agree with our evaluation of the possible liability or outcome of such litigation, or changes in the patent laws. If we are found to infringe on the rights of others we could be required to discontinue offering certain products or systems, to pay damages, or purchase a license to use the intellectual property in question from its owner. Litigation can also distract management from the day-to-day operations of the business. We cannot guarantee that our intellectual properties will provide us with a competitive advantage, that it will not be circumvented by our competitors, or that it is all valid and enforceable. Our intellectual properties may not be sufficient, as a practical matter, to effectively enable us to competitively distinguish our products from those of other companies.

Our success may depend in part on our ability to obtain trademark protection for the names or symbols under which we market our products and to obtain copyright protection and patent protection of our proprietary technologies, intellectual property, and other game innovations. We can make no assurance that we will be able to build and maintain goodwill in our trademarks or obtain trademark or patent protection, that any trademark, copyright or issued patent will provide competitive advantages for us, that our intellectual properties will not be successfully challenged or circumvented by competitors, or that our patents and other intellectual property are valid and enforceable.

We also rely on trade secrets and proprietary know-how. We enter into confidentiality agreements with our employees and independent contractors regarding our trade secrets and proprietary information, but we cannot be assured that the obligation to maintain the confidentiality of our trade secrets or proprietary information will be honored. Despite various confidentiality agreements and other trade secret protections, our trade secrets and proprietary know-how could become known to, or independently developed by, competitors.

Some of our products may incorporate open source software. Some open source licenses mandate, as a condition of use of the open source software that is subject to the license, that software developed based such open source software, or combined in certain ways with such open source software, become subject to the open source license, or infected. If our proprietary software were thus infected, we could be required to stop using the infecting open sources of software (which would require us to obtain commercial licenses or develop alternative software, which could be costly or time consuming) or make any of our proprietary software that was infected available to the public in source code form without charge. We take steps to ensure that proprietary software we do not wish to disclose is not combined with, or does not incorporate, open source software in ways that would require such proprietary software to be subject to an open source license. However, few courts have interpreted the open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty.

If we are unable to keep pace with rapid innovations in new technologies or product design and deployment or if we are unable to quickly adapt our development, manufacturing, or sales processes to compete, our business and results of operation could be negatively impacted.

Our success is dependent on our ability to develop and sell new products and systems that are attractive not only to our customers, but also to their customers, the end players. If our gaming devices do not appeal to customers, or if our gaming devices do not meet or sustain revenue and profitability of contractual obligations and expectations, our gaming devices may be replaced by our competitors' devices. Additionally, we may be unable to enhance existing products in a timely manner in response to changing regulatory, legal or market conditions or customer requirements, or new products or new versions of our existing products may not achieve market acceptance in new or existing markets. Furthermore, as we attempt to generate new streams of revenue by selling units to new customers in new

jurisdictions we may have difficulty implementing an effective sales strategy for jurisdictional specific games. Our failure to successfully implement an effective sales strategy could cause our future operating results to vary materially from what management has forecast. Therefore, our future success depends upon our ability to design, market and sell technologically sophisticated products that meet our customer's needs regarding, among other things, ease of use and adaptability, but also that are unique and entertaining such that they achieve high levels of player appeal and sustainability. If we fail to keep pace with our competitors, our business could be adversely affected.

The demands of our customers and the preferences of the end players are continuously changing. As a result, there is constant pressure to develop and market new game content and technologically innovative products. As our revenues are heavily dependent on the earning power and life span of our games and because newer game themes tend to have a shorter life span than more traditional game themes, we face increased pressure to design and deploy new and successful game themes to maintain our revenue stream and remain competitive. Our ability to develop new and innovative products could be adversely affected by:

- the failure of our new gaming products to become popular with end players;
- a decision by our customers or the gaming industry in general to decline to purchase our new gaming devices or to cancel or return previous orders, content or systems in anticipation of newer technologies;
- an inability to roll out new games, services or systems on schedule as a result of delays in regulatory product approval in the applicable jurisdictions, or otherwise; and
- an increase in the popularity of competitors' games.

There is no assurance that our investments in research and development will lead to successful new technologies or timely new products. We invest heavily in product development in various disciplines from hardware, software, and firmware engineering to game design, video, multimedia, graphics, and sound. Our newer products are generally more technologically sophisticated and are of a different form than those we have produced in the past and we must continually refine our production capabilities to meet the needs of our product innovation. If we cannot adapt our manufacturing infrastructure to meet the needs of our product innovations, if we are unable to receive the components or resources we require, or if we are unable to make upgrades to our production capacity in a timely manner, our business could be negatively impacted.

Our games and systems may experience loss or competitive disadvantages based on malfunctions, anomalies, technological problems, internal deficiencies, or fraudulent activities.

Our games and systems, and games and systems we license or distribute from third parties, could produce false payouts as the result of malfunctions, anomalies, technological problems, internal deficiencies, or fraudulent activities, which we may be required to pay. We depend on our security precautions, the honesty of our employees, and our system of internal controls to prevent fraud. We also depend on regulatory safeguards, which may not be available in all jurisdictions or markets, to protect us against jackpots awarded as a result of malfunctions, anomalies, technological problems, internal deficiencies, or fraudulent activities. There can be no guarantee that regulatory safeguards in jurisdictions or markets where they do exist, will be sufficient to protect us from liabilities associated with malfunctions, anomalies, technological problems, internal deficiencies, or fraudulent activities.

The occurrence of malfunctions, anomalies, technological problems, internal deficiencies, or fraudulent activities could result in litigation against us by our customers based on lost revenue or other claims based in tort or breach of contract. Moreover, these occurrences could result in investigations or disciplinary actions by applicable gaming regulators. Additionally, in the event of such issues with our gaming devices or software, substantial engineering and marketing resources may be diverted from other areas to rectify the problem.

Any unauthorized, and potentially improper, actions of our personnel could adversely affect our business, operating results and financial condition.

The recognition of our revenue depends on, among other things, the terms negotiated in our contracts with our customers. Our personnel may act outside of their authority and negotiate additional terms without our knowledge. We discourage such conduct, but there can be no assurance that our policy will be followed. For instance, in the event that our sales personnel negotiate terms that do not appear in the contract and of which we are unaware, whether the additional terms are written or verbal, we could be prevented from recognizing revenue in accordance with our plans. Furthermore, depending on when we learn of unauthorized actions and the size of transactions involved, we may have to restate revenue for a previously reported period, which would seriously harm our business, operating results and financial condition.

Furthermore, certain of our customers and third-party testing laboratories have policies and procedures in place regarding the shipment and installation of our products. If such policies and procedures are not properly complied with by our personnel, we may experience a delay in installation, which could result in a loss of revenue, penalties, fines or fees, which could adversely affect our business, operating results and financial condition.

The gaming industry is intensely competitive. We may not be able to successfully compete in new and existing markets due to research and development, intellectual property and regulatory challenges, and if we are unable to compete effectively, our business could be negatively impacted.

We operate in an intensely competitive industry against larger companies with significant financial, research, design, development, and marketing resources. These larger companies, most of whom have greater resources, are aggressively competing against us in our core business operations, including but not limited to lottery, Class II, Class III, and commercial slot markets. Additionally, new smaller competitors compete against us in our traditional markets, and these smaller competitors may not face the same regulatory and/or compliance restraints that we have. Any increased competition will intensify pressure on our pricing model. We expect to face increased competition as we attempt to enter new markets and new geographical locations.

There are a number of established, well-financed companies producing gaming devices, game content and systems that compete with our products. Certain of these competitors may have access to greater capital resources than we do, and as a result, may be

better positioned to compete in the marketplace. These competitors include International Game Technology, Scientific Games Corporation, Bally Technologies, Inc., Aristocrat Technologies, Inc. and Konami Co. Ltd. Pricing, accuracy, reliability, product features and functions are among the factors affecting a provider's success in selling its system. Competition in the gaming industry is intense due to the number of providers, as well as the limited number of facilities and jurisdictions in which they operate. Other members of our industry may independently develop games similar to our games. Additionally, our customers compete with other providers of entertainment for their end user's entertainment budget. Consequently, our customers might not be able to spend new capital on acquiring gaming equipment. Moreover, our customers might reduce their utilization of revenue share agreements.

We may not collect all amounts recorded for value added taxes related to our operations in Mexico which may adversely affect our financial results.

Our Mexican operations were subject to a value added tax, or VAT, which was applied to the imports of products originating outside of Mexico. We have an outstanding VAT receivable from the Mexico taxing authority primarily related to VAT levied on product shipments for 2006 and 2007. At September 30, 2013 and September 30, 2012, the Company's VAT receivable was $2.9 million and $3.5 million, respectively. The Mexico taxing authority has ruled on 2006 and 2007 and has challenged the registration of certain of the transactions recorded in VAT receivable. Although we have partially reserved the challenged VAT receivable balance, we have also formally contested these rulings. The final resolution of the contested balances remains uncertain and may adversely affect the carrying value of the receivable.

We may not realize satisfactory returns on money lent or otherwise funded to new and existing customers to develop or expand gaming facilities.

We enter into development and placement fee agreements to provide financing for construction, expansion, or remodeling of gaming facilities, primarily in the State of Oklahoma. Under our development and placement fee agreements, we secure a long-term revenue share percentage and a fixed number of player terminal placements in the facility, in exchange for funding the development and construction of the gaming facility. We may not, however, realize the anticipated benefits of any of these strategic relationships or financings as our success in these ventures is dependent upon the timely completion of the gaming facility, the placement of our player terminals, and a favorable regulatory environment. For example, in fiscal 2010, we took a material impairment charge for a note receivable for money lent in connection with a development agreement for an Alabama facility because of the legal uncertainty of charitable bingo in the state and in fiscal 2011, we removed all charitable bingo machines from charity customer facilities in the state of Alabama due to regulatory changes in the state.

Our development and placement efforts and financing activities may result in operating difficulties, financial risks, or required expenditures that could adversely affect our liquidity. In connection with one or more of these transactions, and to obtain the necessary development and placement fee funds, we may need to extend secured and unsecured credit to potential or existing customers that may not be repaid, incur debt on terms unfavorable to us or that we are unable to repay, or incur other contingent liabilities. While we believe the increased level of receivables from counterparties to development agreements has allowed us to grow our business, it has also required direct, additional focus of and involvement by management. The failure to maintain controls and processes related to our collection efforts or the deterioration of the financial condition of our customers could negatively impact our business.

Slow growth in the establishment of new gaming jurisdictions or the number of new casinos and declines in the rate of replacement for existing gaming machines could limit or reduce our future profits.

While we continue to seek entry into already established gaming jurisdictions, demand for our products is also driven by the establishment of new gaming jurisdictions, the addition of new casinos or expansion of existing casinos within existing gaming jurisdictions, and the replacement of existing gaming machines. The establishment or expansion of gaming in any jurisdiction typically requires a public referendum or other legislative action. As a result, gaming continues to be the subject of public debate, and there are numerous active organizations that oppose gaming. Opposition to gaming, such as that which we experienced in Alabama, could result in restrictions on or even

prohibitions of gaming operations or the expansion of operations in any jurisdiction. In addition, the construction of new casinos or expansion of existing casinos fluctuates with demand, general economic conditions and the availability of financing. The rate of gaming growth in the United States has diminished and machine replacements as a percentage of total floor space is at historically low levels. Slow growth in the establishment of new gaming jurisdictions, public protest, political opposition, delays in the opening of new or expanded casinos and continued declines in or low levels of demand for machine replacements, including from greater competition from table games, could reduce the demand for our products and our future profits.

Worsening economic conditions may adversely affect our business.

The demand for entertainment and leisure activities tends to be highly sensitive to consumers' disposable incomes, and thus a decline in general economic conditions, higher levels of unemployment, weakness in the housing markets, higher consumer debt levels, declines in consumer confidence in future economic conditions, higher tax rates, higher interest rates, and other adverse economic conditions may lead to our end users having less discretionary income with which to wager. Additionally, higher airfares, gasoline prices, and other costs may adversely affect the number of players visiting our customers' gaming facilities. The gaming industry is currently experiencing a period of reduced demand. A decline in the relative health of the gaming industry and the difficulty or inability of our customers to obtain adequate levels of capital to finance their ongoing operations reduces their resources available to purchase our products and services, which adversely affects our revenues. If we experience a significant unexpected decrease in demand for our products, we could also be required to increase our inventory obsolescence charges. Additionally, a decline in general economic conditions might negatively impact our customers' abilities to pay us in a timely fashion. Our customers' failures to make timely payments could result in an increase in our provision for bad debt.

Litigation may adversely affect our business, financial condition and results of operations.

We are subject to legal and regulatory requirements applicable to our business and industry. We are also subject to the risk of litigation by employees, customers, our customers' customers, patent owners, competitors, suppliers, shareholders or others through private actions, class actions, administrative proceedings and other legal proceedings. Litigation can be lengthy, expensive, and disruptive to our operations and results cannot be predicted with certainty or, sometimes, at all. Current estimates of loss regarding pending litigation may not be reflective of any particular final outcome. The results of rulings, judgments or settlements of pending litigation may result in financial liability that is materially higher than what management has estimated at this time and we may experience adverse publicity associated with litigation, regardless of whether the allegations are valid or whether we are ultimately found liable. We make no assurances that we will not be subject to liability with respect to current or future litigation. We maintain various forms of insurance coverage; however, substantial rulings, judgments or settlements could exceed the amount of insurance coverage (or any cost allocation agreement with an insurance carrier), may not be covered under our existing insurance policies, or could be excluded under the terms of an existing insurance policy. Moreover, our failure to comply with procedural or operational requirements inherent to our policies may void coverage. Additionally, failure to secure favorable outcomes in pending litigation could result in adverse consequences to our business, operating results and/or overall financial condition, including without limitation, possible adverse effects on compliance with the terms of our Credit Agreement.

Casino operations are conducted at the discretion of our customers.

We seek to provide assistance to our key customers in the form of project management, with a focus on facility layout and planning, gaming floor configuration and customized marketing and promotional initiatives. Our customers, however, are solely responsible for the operations of their facilities and are not required to consult us or take our advice on their operations, marketing, facility layout, gaming floor configuration, or promotional initiatives. Further, our customers are solely responsible for safety and security at their facilities. Our customers have in the past, and will in the future, remodel and expand their facilities. To the extent that our machines are not a part of an optimized facility layout or gaming floor configuration, are not supported by effective marketing or promotional initiatives, are scheduled to be out of service during a facility remodeling, or our customers' facilities are closed or not visited because of end-users concern for safety, our operating results could suffer.

Demand for our products and the level of play of our products could be adversely affected by changes in player and operator preferences.

As a supplier of gaming machines, we must offer themes and products that appeal to gaming operators and players. There is constant pressure to develop and market new game content and technologically innovative products. Our revenues are dependent on the earning power and life span of our games. We therefore face continuous pressure to design and deploy new and successful game themes to maintain our revenue and remain competitive. If we are unable

to anticipate or react timely to any significant changes in player preferences, such as a negative change in the trend of acceptance of our newest systems innovations or jackpot fatigue (declining play levels on smaller jackpots), the demand for our gaming products and the level of play of our gaming products could decline. Further, our products could suffer a loss of floor space to table games or other more technologically advanced games or operators may reduce revenue sharing arrangements, each of which would harm our sales and financial results. In addition, general changes in consumer behavior, such as reduced travel activity or redirection of entertainment dollars to other venues, could result in reduced demand and reduced play levels for our gaming products.

We rely on hardware, software and games licensed from third parties, and on technology provided by third-party vendors, the loss of which could materially affect our business, increase our costs and delay deployment or suspend development of our gaming systems and player terminals.

We integrate various third-party software products as components of our software and rely on third-party manufacturers to manufacture our equipment. Our business could be disrupted if the manufacturers or this software or hardware, or functional equivalents of this software or hardware, were either no longer available to us or no longer offered to us on commercially reasonable terms. Acts of God, adverse weather, and shipping difficulties, particularly with respect to international third-party suppliers, could significantly delay our receipt of such components. For example, some of our suppliers are located in Japan and Thailand, both of which recently experienced natural disasters. If we are unable to obtain these items from our established third-party vendors, we could be required to either redesign our product to function with alternate third-party product, or to develop or manufacture these components ourselves, which would result in increased costs and could result in delays in our deployment of our gaming systems and player terminals. Furthermore, we might be forced to limit the features available in our current or future offerings.

We rely on intellectual property licenses from one or more third-party competitors, the loss of which could materially affect our business and the sale or placement of our products. Various third-party gaming manufacturers with which we compete are much larger than us and have substantially larger intellectual property assets. The gaming manufacturer industry is very competitive and litigious, and a lawsuit brought by one of our larger competitors whether or not well-founded, may have a material effect on our business and our ability to sell or place our products.

We rely on the content of certain software that we license from third-party vendors and often distribute and sell such software to our customers. The software could contain “open source” code, require a resale license or contain bugs that could have an impact on our business. We also rely on the technology of third-party vendors, such as telecommunication providers, to operate our nationwide broadband telecommunications network. A serious or sustained disruption of the provision of these services could result in some of our player terminals being non operational for the duration of the disruption, which would reduce over-all revenue from those player terminals, and could cause us to pay penalties and, in some cases, liquidated damages.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act (FCPA), which prohibits improper payments or offers of improper payments to foreign officials to obtain business or any other benefit. The FCPA also requires corporations covered by the provisions to make and keep books and records that accurately and fairly reflect the transactions of the corporation and to devise and maintain an adequate system of internal accounting controls. We have operations and agreements with third parties and make sales internationally, and such international activities create the risk of unauthorized payments or offers of payments in violation of the FCPA by one of our employees or agents, as these parties are not always subject to our control. Furthermore, accounting standards practiced by our agents in Mexico and in other jurisdictions in which we may operate may not always conform with U.S. GAAP. We have recently augmented our Foreign Corrupt Practices Compliance Policy; however, we can make no assurance that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition, and results of operations.

Our current international businesses and potential expansion into other international gaming markets may present new challenges and risks that could adversely affect our business or results of operations.

In recent years, we have conducted business in several countries, including Mexico, Israel, Malta, and Canada. The Maltese operations have ceased, the Israeli operations are immaterial from a financial perspective, the Canadian business has been project-oriented to date, and we have sold our remaining units in Mexico; however, we may continue to seek growth in the international market and continue to have subsidiary corporations in Mexico. International business is inherently subject to various risks, including, but not limited to:

- difficulty in enforcing agreements;
- higher operating costs due to local laws or regulations;
- unexpected changes in regulatory requirements;
- tariffs, embargoes, taxes and other trade barriers, including value added tax;
- trade barriers and disputes;
- regulations related to customs and export/import matters;
- fluctuations in foreign economies and currency exchange rates;

- longer payment cycles and difficulties in collecting accounts receivables;
- the complexity, expense, and necessity of using foreign representatives and consultants;
- tax uncertainties and unanticipated tax costs due to foreign taxing regimes;
- the difficulty of managing and operating an international enterprise, including difficulties in maintaining effective communications with employees and customers due to distance, language and cultural barriers;
- compliance with a variety of laws;
- social, political or economic instability;
- costs and risks of localizing products for foreign countries;
- greater difficulty in safeguarding intellectual property, licensing and other trade restrictions; repatriation of earnings;
- expropriation, nationalization and limitation or restriction on repatriation of earnings;
- recessions in foreign economies; and
- economic and geopolitical developments and conditions, including international hostilities, armed conflicts, acts of terrorism and governmental reactions, inflation, trade relationships and military and political alliances.

Failure to properly manage operational risks could cause business disruption or substantial loss to our business.

Management maintains internal operational controls and we have invested, and are continuing to invest, in technology to help us streamline our enterprise information systems. However, we may not be able to continue processing at the same or higher levels of transactions. If our systems of internal operational controls should fail to work as expected, if our systems were to be used in an unauthorized manner, or if employees were to subvert the system of internal operational controls, significant losses could occur. Additionally, we are implementing new software in the financial, accounting and manufacturing areas of the Company, which could cause delays and business interruption and could affect our results of operations.

We process transactions on a daily basis and are exposed to numerous types of operational risk, which could cause us to incur substantial losses. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by employees or persons outside of our company, the execution of unauthorized transactions by employees, errors or omissions relating to transaction processing and systems, breaches of the internal control system, and jurisdictional or environmental related risks associated with our regulatory and compliance requirements. While we attempt to identify this type of operational risk, such attempts may not be successful or adequate and this risk of loss also includes potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards and such risk may be excluded under the terms of an existing insurance policy.

If we fail to properly maintain an effective system of internal controls, we may be unsuccessful in the accurate reporting of our financial results or the timely detection of fraud.

We seek to establish and maintain systems of internal operational controls that provide management with timely and accurate information about our level of operational risk. We intend that these systems will help manage operational risk at appropriate, cost effective levels. We have also established procedures that are designed to ensure that policies relating to conduct, ethics and business practices are followed. Nevertheless, we may experience loss from operational risk from time to time, including the effects of operational and user errors, and these losses may be substantial. Effective internal controls are necessary to provide reliable financial reports and to assist in the effective prevention of fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. We must annually evaluate our internal procedures to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires management and auditors to assess the effectiveness of internal controls. If we fail to remedy or maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we could be subject to regulatory scrutiny, civil or criminal penalties or shareholder litigation. In addition, failure to maintain adequate internal controls could result in financial statements that do not accurately reflect our financial condition. There can be no assurance that we will be able to complete the work necessary to fully comply with the requirements of the Sarbanes-Oxley Act or that our management and our independent registered public accounting firm will continue to conclude that our internal controls are effective.

Any disruption in our network or telecommunications services, including disruptions resulting from adverse weather conditions or other catastrophic events in the areas in which we operate, could affect our ability to operate our business, our systems or our games, which could cause reduced revenues, customer down time, payments of liquidated damages or lost customers.

Our ability to provide satisfactory levels of customer service depends, to a large degree, on the efficient and uninterrupted operation of our customer service operations. Any material disruption or slowdown in our support systems could make it difficult or impossible

to provide adequate customer service and support. If we are unable to continually provide adequate service operations, our reputation could be harmed and we could lose customers. Because our success depends in large part on keeping our customers satisfied, any failure to provide high levels of customer service would likely impair our reputation and decrease our revenues.

Our network is susceptible to outages due to fire, floods, power loss, break-ins, cyberattacks and similar events. We have multiple site back up for our services in the event of any such occurrence, but our data, and therefore our business, our systems, or our games, could be adversely affected for an extended period, thereby affecting revenue and goodwill. Despite our implementation of network security measures, our servers are vulnerable to computer viruses and break-ins. Disruptions to our computer systems from unauthorized use, tampering or otherwise could have a material adverse effect on our business, operating results and financial condition. In addition, portions of our gaming network are often integrated with our customers' networks, which are outside of our control, but could affect our own network. There is also a risk that our customers' house networks could be compromised, which could impact our customers' operations, and their revenues, which could conversely adversely affect our own revenue.

Adverse weather conditions, particularly flooding, tornadoes, heavy snowfall and other extreme weather conditions often deter our customer's end users from traveling, or make it difficult for them to frequent the sites where our games are installed. If any of those sites experienced prolonged adverse weather conditions, or if the sites in Oklahoma, where a significant number of our games are installed, simultaneously experienced adverse weather conditions, our results of operations and financial condition would be materially and adversely affected.

If we do not meet contract deadlines or specifications as a result of these issues or otherwise, we may need to renegotiate contracts on less favorable terms, be forced to pay penalties or liquidated damages or suffer major losses if the customer exercises its right to terminate. We are parties to certain agreements that could require us to pay damages resulting from loss of revenues if our systems are not properly functioning, or as a result of a system malfunction or an inaccurate pay table. For example, our agreement with the New York State Division of the Lottery permits termination of the contract at any time for failure by us or our system to perform properly, and any such unforeseen downtime could subject us to liquidated damages. In addition, if we fail to meet the terms specified in our contracts we may not realize their full benefits. Failure to perform under any contract could result in substantial monetary damages, as well as contract termination. Our results of operations are dependent on our ability to maximize our earnings from our contracts.

Our share repurchase program could increase the volatility of the price of our common stock.

On November 15, 2012, the Company announced that the Board of Directors of the Company had approved a plan to repurchase up to $40 million of the Company's outstanding common stock over the following three year period. Pursuant to the authorization, the Company may purchase shares from time to time in the open market, through block purchases or in privately negotiated transactions in accordance with Company policies and applicable securities laws. In addition, the Company has established a 10b5-1 plan, pursuant to which some of the purchases may be made from time to time in the open market, subject to certain pricing parameters. As repurchases under the share repurchase program are subject to certain pricing parameters as well as the restrictions in our Credit Agreement, there is no guarantee as to the exact number of shares that will be repurchased under the program. Repurchases of our shares will reduce the number of our outstanding common stock and might incrementally increase the potential for volatility in our common stock by reducing the potential volumes at which our common stock may trade in the public market.

If our key personnel leave us or if we fail to timely hire additional skilled personnel, our business could be materially adversely affected.

We depend on the continued performance of the members of our senior management team and our technology team to assist in executing our strategy. If we were to lose the services of any of our senior officers, directors, or any key member of our technology team, and are not able to find suitable replacements for such persons in a timely manner, our business could be materially affected. Further we expect that our efforts to grow will place a significant strain on our personnel, management systems, infrastructure and other resources. Our ability to manage future growth effectively will also require us to successfully attract, train, motivate, retain and manage new employees and continue

to update and improve our operational, financial and management controls and procedures.

Our Credit Agreement contains covenants that limit our ability to finance future operations or capital needs and to engage in other business activities.

The operating and financial restrictions and covenants in the Credit Agreement may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. Our Credit Agreement requires us to limit capital expenditures to $60 million and requires us to maintain a total leverage ratio of no more than 1.50:1.00. Our total borrowing capacity may affect our ability to engage in certain business activities. In addition, the Credit Agreement contains certain covenants that, among other things, restrict our and our subsidiaries' ability to:

- incur certain debt;
- create certain liens;
- pay dividends or make other equity distributions or payments to or affecting our subsidiaries;
- make certain stock repurchases or redemptions;
- make certain investments or capital expenditures;
- sell or dispose of assets or engage in certain acquisitions, mergers or consolidations;
- engage in certain transactions with subsidiaries and affiliates; and
- enter into sale leaseback transactions.

These restrictions could limit our ability to obtain future financing, make strategic acquisitions or needed capital expenditures, withstand economic downturns in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise. A failure to comply with the restrictions contained in the Credit Agreement could lead to an event of default, which could result in an acceleration of our indebtedness. Our future operating results may not be sufficient to enable compliance with the covenants in the Credit Agreement or to remedy any such default.

In addition, in the event of acceleration, we may not have or be able to obtain sufficient funds to refinance our indebtedness or make any accelerated payments. Also, we may not be able to obtain new financing. Even if we were able to obtain new financing, we cannot guarantee that the new financing will be on commercially reasonable terms or terms that are acceptable to us. If we default on our indebtedness, our business financial condition and results of operation could be materially and adversely affected.

Our financial results vary from quarter to quarter, which could negatively impact the price of our common stock.

Various factors affect our quarterly operating results, some of which are not within our control. These factors include, among others:

- the financial strength of the gaming industry;
- consumers' willingness to spend money on leisure activities;
- an outbreak of a communicable disease that affects our customers' business;
- the timing and introduction of new products and services;
- the mix of products and services sold;
- the timing of significant orders from and shipments to customers;
- product and service pricing and discounts;
- the timing of acquisitions of other companies and businesses or dispositions; and
- unforeseen regulatory or other legal developments affecting us or our customers.

If we fail to effectively manage our business, this could adversely affect our results of operations. If our operating results fall below the expectations of securities analysts and investors, the price of our common stock may decline.

Any material change to our operating cash flow or a significant increase in our indebtedness could have an adverse effect on our results of operations, and business generally.

Future revenue may not be sufficient to meet operating, product development and other cash flow requirements. Sufficient funds to service our debt and maintain new product development efforts and expected levels of operations may not be available, and additional capital, if and when needed by us, may not be available on terms acceptable to us. If we cannot obtain sufficient capital on acceptable terms when needed, we may not be able to carry out our planned product development efforts and level of operations, which could harm our business.

We could be required to incur additional indebtedness. Should we incur additional debt, among other things, such increased indebtedness could:

- adversely affect our ability to expand our business, market our products and make investments and capital expenditures;
- adversely affect the cost and availability of funds from commercial lenders, debt financing transactions and other sources;
- create competitive disadvantages compared to other companies with lower debt levels; and
- adversely affect our ability to meet our fixed charge obligations or our debt service payments.

Our growth rate may not continue on the same trajectory and our earnings per share could be affected as a result of an increased tax rate.

We expect fiscal 2014 revenue growth will be driven by further increases in the domestic installed base as well as growth in new unit sales, although such growth and increases may be at a lower rate than in fiscal 2013. Based on current fiscal 2014 projections, we expect that our fiscal 2014 tax rate will be in the range of 36% to 38%, compared to the fiscal 2013 full year effective tax rate of 33%, which could affect our earnings per share.

Adverse decisions of tax authorities or changes in tax laws, rules or interpretations could have a material adverse effect on our results of operations and cash flow.

There may be changes in interpretation and enforcement of tax law. As a result, we may face increases in taxes payable if tax laws, regulations or treaties in the jurisdictions in which we operate are modified by the competent authorities in an adverse manner. In addition, various international, national, state, and local taxing authorities periodically examine us and our subsidiaries. The resolution of an examination or audit may result in us making a payment in an amount that differs from the amount for which we may have reserved with respect to any particular tax matter, which could have a material adverse effect on our cash flows, business, financial condition and results of operations for any affected reporting period.

We and our subsidiaries are engaged in certain intercompany transactions. Although we believe that these transactions reflect arm's length terms and that proper transfer pricing documentation is in place which should be respected for tax purposes, the transfer prices and conditions may be scrutinized by local tax authorities, which could result in additional taxes becoming due.

Our business prospects and future success rely heavily upon the integrity of our employees and executives and the security of our gaming systems.

The integrity and security of our gaming systems are critical to our ability to attract customers and players. We strive to set exacting standards of personal integrity for our employees and for system security involving the gaming systems that we provide to our customers. Our reputation in this regard is an important factor in our business dealings with our current and potential customers as well as licensing boards. For this reason, an allegation or a finding of improper conduct on our part or on the part of one or more of our employees that is attributable to us, or of an actual or alleged system security defect or failure attributable to us, could have a material adverse effect upon our business, financial condition, results and prospects, including our ability to retain existing contracts or licenses, or obtain new or renewed contracts or licenses.

The ability of the Board of Directors to issue preferred stock, anti-takeover provisions of Texas law, our governing documents, and the requirement to obtain prior approval by gaming authorities in the jurisdictions that we operate could discourage a merger or other type of corporate reorganization or a change in control even if it could be favorable to the interests of our shareholders.

Our Board of Directors has the authority to issue 2,000,000 shares of preferred stock and to determine the terms of such preferred stock without shareholder approval. While we currently do not have any preferred stock issued and our Board of Directors has no current plans, agreements or commitments to issue any shares of preferred stock, the issuance of such preferred stock may delay, defer or prevent a change in control because the terms of any issued preferred stock could potentially prohibit our consummation of any acquisition, reorganization, sale of substantially all of our assets, liquidation or other extraordinary corporate transaction. In addition, the issuance of preferred stock

could have a dilutive effect on our shareholders and affect the price of our common stock.

Changes in the control of the company through merger, consolidation, equity or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby that person obtains control, may not occur without the prior approval of certain gaming commissions in the jurisdictions that we operate. Such commissions may also require the equity holders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated, found suitable and licensed as part of the approval process relating to the transaction. Such requirement to be found suitable to hold our voting securities may discourage or delay change of control transactions.

Other provisions of Texas law and our Bylaws may have the effect of delaying or preventing a change in control or acquisition, whether by means of a tender offer, business combination, proxy contest, or otherwise. Our Bylaws include certain procedural

requirements governing the nomination of directors and proposals of other business by shareholders and shareholder meetings. These provisions could have the effect of delaying or preventing a change in control.

We are subject to complex and dynamic revenue recognition standards, which could materially affect our financial results.

As we introduce new products and transactions become increasingly complex, additional analysis and judgment is required to account for and recognize revenues in accordance with generally accepted accounting principles. Transactions may include multiple element arrangements and/or software components and applicable accounting principles could further change the timing of revenue recognition and could adversely affect our financial results for any given period. Fluctuations may occur in our deferred revenues and reflect our continued shift toward more multiple element contracts that include systems and software.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

We do not own any real property. As of September 30, 2013, we are under contract for the following leases, and we believe the facilities are suitable to our business and adequate for our current and near-term needs:

	Square Feet	Monthly Rent	Expiration Date
Austin, Texas			
Corporate Offices	63,048	$110,315	August 2015
Assembly and Warehouse Facility	68,040	27,443	December 2016
Las Vegas, Nevada			
Corporate Offices	4,003	5,562	June 2017
Assembly and Warehouse Facility	10,176	6,818	March 2016
Oklahoma City, Oklahoma			
Warehouse	10,396	3,415	November 2016
Auburn, Washington			
Warehouse	13,506	6,301	December 2016
Albany, New York			
Office Space	2,708	3,403	December 2017
Schenectady, New York			
Office Space	1,690	3,391	December 2017
Mexico City, Mexico			
Office	719	8,135	March 2014

ITEM 3. LEGAL PROCEEDINGS

In addition to the below, we may be the subject of various pending and threatened claims in the ordinary course of business.

Alabama Litigation. We are currently involved in two lawsuits, as further described below, related to our former charity bingo operations in the State of Alabama. While we believe that these lawsuits are not material from a pure damages perspective, a finding in either of these cases that electronic charity bingo was illegal in Alabama during the pertinent time frame could potentially have material adverse regulatory consequences for us in other jurisdictions in which we operate. The lawsuits are currently pending in federal court, and include claims related to the alleged illegality of electronic charity bingo in the State of Alabama.

Dollie Williams, et al., v. Macon County Greyhound Park, Inc., et al., a civil action, was filed on March 8, 2010, in the United States District Court for the Middle District of Alabama, Eastern Division, against the Company and others. The plaintiffs, who claim to have been patrons of VictoryLand, allege that the Company participated in gambling operations that violated Alabama state law by supplying to VictoryLand purportedly unlawful electronic bingo machines played by the plaintiffs and seek recovery of the monies lost on all electronic bingo games played by the plaintiffs in the six months prior to the complaint under Ala. Code Sec. 8-1-150(A). The plaintiffs have requested that the court certify the action as a class action. On March 16, 2012, Walter Bussey and two other named plaintiffs were voluntarily dismissed. On March 29, 2013, the court entered an order granting the plaintiffs' motion for class certification. On April 12, 2013, the defendants jointly filed a petition with the Eleventh Circuit Court of Appeals seeking permission to appeal the court's ruling on class certification. On June 18, 2013, the Eleventh Circuit Court of Appeals entered an order granting the petition to appeal. Our appellate briefing was concluded on Oct. 2, 2013 and we await a ruling from the Eleventh Circuit Court of Appeals. We continue to vigorously defend this matter. Given the inherent uncertainties in this litigation, however, we are unable to make any prediction as to the ultimate outcome. A finding in this case that electronic bingo was illegal in Alabama during the pertinent time frame could have adverse regulatory consequences for us in other jurisdictions.

Ozetta Hardy v. Whitehall Gaming Center, LLC, et al., a civil action, was filed against Whitehall Gaming Center, LLC (an entity that does not exist), Cornerstone Community Outreach, Inc., and Freedom Trail Ventures, Ltd., in the Circuit Court of Lowndes County, Alabama. On June 3, 2010, the Company and other manufacturers were added. The plaintiffs, who claim to have been patrons of White Hall, allege that the Company participated in gambling operations that violated Alabama state law by supplying to White Hall purportedly unlawful electronic bingo machines played by the plaintiffs and seek recovery of the monies lost on all electronic bingo games played by the plaintiffs in the six months prior to the complaint based on Ala. Code, Sec 8-1-150(A). The plaintiffs have requested that the court certify the action as a class action. On July 2, 2010, the defendants removed the case to the United States District Court for the Middle District of Alabama, Northern Division. We await a ruling on the plaintiffs' motion for class certification, which has been fully briefed and is pending before the court. We continue to vigorously defend this matter. Given the inherent uncertainties in this litigation, however, we are unable to make any prediction as to the ultimate outcome. A finding in this case that electronic bingo was illegal in Alabama during the pertinent time frame could have adverse regulatory consequences for us in other jurisdictions.

Mexico Income Tax Audit
Our Mexican subsidiary, Multimedia Games de Mexico 1, S. de R.L. de C.V., or Multimedia Games de Mexico, was under audit by the Mexico taxing authorities for the twelve month periods ended December 31, 2006 and 2007.

For the 2006 tax period, Multimedia Games de Mexico was assessed approximately $23,000. After several appeals, Multimedia Games de Mexico has determined not to further appeal the tax court's decisions and has instead determined to file a request for tax amnesty under a recently-announced program that was published in the Federal

Official Gazette on December 17, 2012. The tax amnesty program for the 2006 tax year includes partial forgiveness of taxes due, plus a total or partial forgiveness of penalties and interest. Multimedia Games de Mexico applied for the tax amnesty program and has paid approximately $2,300 to the tax authorities to settle this entire matter. On July 26, 2013, Multimedia Games de Mexico received a response from the taxing authorities and the taxing authorities have confirmed that there is no longer a tax contingency for 2006. Multimedia Games de Mexico did not admit liability by entering into the settlement.

For the 2007 tax period, on November 19, 2010, Multimedia Games de Mexico filed before the South Legal Matters Local Administration for the Federal District of the Tax Administration Service an administrative appeal against the resolutions set forth by the South Auditing Local Administration for the Federal District of the Tax Administration Service in ruling number 500-74-02-04-03-2010-9403, which assessed an income and value added tax deficiency of approximately $14.7 million to Multimedia Games de Mexico for the 2007 tax year. In ruling number 600-27-00-02-00-2011 MAIB - 13370, issued by the South Legal Matters Local Administration for the Federal District of the Tax Administration Service, the Mexico taxing authorities ruled on the appeal and reduced the total amount assessed for the 2007 year to approximately $2.9 million. On December 14, 2011, Multimedia Games de Mexico filed before the Federal Tribunal of Fiscal and Administrative Justice (Tax Court) a lawsuit against the remaining $2.9 million assessment for 2007. The lawsuit was remitted to the Eleventh Regional Metropolitan Division of the

Federal Tribunal of Fiscal and Administrative Matters (Tax Court), and was registered under docket number 31987/11-17-11-8. In January 2012, a bond of $2.9 million, using a $3.5 million standby letter of credit issued under our domestic credit facility, was provided to the North Collecting Local Administration for the Federal District of the Tax Administration Service as collateral for the potential assessment based on the taxing authorities' current estimate of the tax due. The Tax Court has reviewed the evidence and on September 19, 2012 issued its decision upholding the previous ruling against Multimedia Games de Mexico. On October 31, 2012, Multimedia Games de Mexico filed an appeal with the Federal Court of Mexico which has since been withdrawn since Multimedia Games de Mexico has applied for the tax amnesty program applicable for the 2007 tax year, which includes the total or partial forgiveness of penalties and/or interest on taxes due, and has paid approximately $2.0 million to settle the entire $2.9 million tax assessment for the 2007 tax year. On August 28, 2013, Multimedia Games de Mexico received a response from the taxing authorities and the taxing authorities have confirmed that there is no longer a tax contingency for 2007. Multimedia Games de Mexico did not admit liability by entering into the settlement.

ITEM 4. Mine Safety Disclosures

None.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market, or NASDAQ, under the symbol “MGAM.” The following table sets forth the quarterly high and low sale prices per share of our common stock, as reported by NASDAQ, for each quarter during the last two fiscal years.

Fiscal Quarter	High	Low
2013		
First Quarter	$16.75	$13.26
Second Quarter	20.92	13.75
Third Quarter	27.60	18.98
Fourth Quarter	40.15	26.21
2012		
First Quarter	$8.36	$3.87
Second Quarter	11.58	7.36
Third Quarter	14.51	10.73
Fourth Quarter	16.75	12.50

There were approximately 41 holders of record of our common stock as of November 8, 2013.

We have never declared or paid any cash dividends on our common stock. We intend to retain our earnings to finance growth and development or buy back stock, and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future. Our Credit Agreement places restrictions on the payment of dividends and any declaration and payment of any dividends on our common stock would be at the discretion of our Board of Directors, subject to the terms of our Credit Agreement, our financial condition, capital requirements, future prospects, and other factors deemed relevant. See further discussion of the Credit Agreement, in "Part II - Item 7 - Management’s Discussion and Analysis of Financial Condition, Results of Operations - Liquidity and Capital Resources."

Performance Graph. The following graph depicts our total return to shareholders from September 30, 2008 through September 30, 2013, relative to the performance of (i) the NASDAQ Composite Index; and (ii) stock in a selected peer group index, or the “Peer Group.” The Peer Group consists of Bally Technologies, Inc., International Game Technology, Progressive Gaming International Corp., Shuffle Master, Inc., and WMS Industries, Inc. The Peer Group represents companies in the gaming industry, as selected by a third party. All indices shown in the graph have been reset to a base of 100 as of September 30, 2008 and assume an investment of $100 on that date and the reinvestment of dividends paid since that date. We have never paid a dividend on our common stock. The stock price performance shown in the graph is not necessarily indicative of future price performance.

	9/08	9/09	9/10	9/11	9/12	9/13
Multimedia Games Holding Company, Inc.	$100.00	$118.24	$85.45	$93.30	$363.28	$797.92
NASDAQ Composite	$100.00	$103.76	$116.52	$120.44	$157.60	$195.67
Peer Group	$100.00	$132.76	$102.07	$84.43	$96.07	$142.28

Purchases of Equity Securities by the Issuer and Affiliated Purchases

On November 15, 2012, the Company announced that the Board of Directors of the Company had approved a plan to repurchase up to $40 million of the Company’s outstanding common stock over the following three year period (the "Share Repurchase Program"). Pursuant to the authorization, the Company may purchase shares from time to time in the open market, through block purchases or in privately negotiated transactions in accordance with Company policies and applicable securities laws. In addition, the Company has established a 10b5-1 plan, pursuant to which some of the purchases may be made from time to time in the open market, subject to certain pricing parameters. The actual number of shares to be purchased, if any, will depend upon market conditions and purchases are subject to the restrictions in the Company's Credit Agreement. Any shares purchased will be held in the Company’s treasury for possible future use. Since December 2010, the Company has purchased a total of 2.5 million shares at an average price of $6.63 under the Company's share repurchase programs.

Summary of Stock Repurchases

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
December 3, 2010 - December 31, 2010	394,074	$5.13	394,074	$13.0 million
January 1, 2011 -January 31, 2011	345,600	$5.77	345,600	$11.0 million
February 1, 2011 -February 28, 2011	175,132	$5.40	175,132	$10.0 million
March 1, 2011 - March 31, 2011	241,269	$5.41	241,269	$8.7 million
April 1, 2011 -April 30, 2011	296,100	$5.72	296,100	$7.0 million
May 1, 2011 -May 31, 2011	326,265	$5.49	326,265	$5.3 million
June 1, 2011 -June 30, 2011	45,600	$5.46	45,600	$5.0 million
Cumulative Total - September 30, 2011	1,824,040	$5.48	1,824,040	$5.0 million
October 1, 2011 - October 31, 2011	392,821	$4.78	392,821	$3.1 million
Cumulative Total - September 30, 2012	2,216,861	$5.36	2,216,861	$3.1 million
December 1, 2012 - December 31, 2012	144,991	$13.95	144,991	$38.0 million
January 1, 2013 - January 31, 2013	68,611	$14.27	68,611	$37.0 million
March 1, 2013 - March 28, 2013	34,000	$19.48	34,000	$36.3 million
April 1, 2013 - April 30, 2013	44,000	$20.25	44,000	$35.4 million
May 1, 2013 - May 31, 2013	12,000	$23.14	12,000	$35.2 million
Cumulative Total - September 30, 2013	2,520,463	$6.63	2,520,463	$35.2 million

In November 2012, our Board of Directors approved a repurchase plan for the purchase of up to $40 million of our outstanding common stock over a three-year period. This repurchase plan replaced the 2010 Share Repurchase Plan.

ITEM 6. Selected Financial Data

The following selected financial data are derived from our Consolidated Financial Statements. The data below should be read in conjunction with our Consolidated Financial Statements and Notes thereto contained in Part IV, Item 15 - Exhibits and Financial Statement Schedules, “Risk Factors” contained in "Part I - Item 1A. Risk Factors" of this Report, and “Part II - Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	Years Ended September 30,				
	2013	2012	2011	2010	2009
Consolidated Income Statement Data:	(In thousands, except per-share amounts)				
Revenues	$189,366	$156,176	$127,855	$117,936	$127,152
Operating income (loss)	52,382	24,091	6,154	(10,620)	(28,702)
Net income (loss)	34,934	28,174	5,677	2,629	(44,778)
Earnings (loss) per share:					
Basic	1.21	1.01	0.20	0.10	(1.67)
Diluted	1.14	0.96	0.20	0.09	(1.67)
Consolidated Balance Sheet Data:					
Working capital	$123,467	$87,075	$59,262	$47,207	$28,700
Total assets	281,525	225,975	181,879	186,094	215,620
Long-term obligations	26,411	30,218	33,979	44,612	75,039
Total stockholders’ equity	208,941	155,020	115,902	114,597	107,455

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

Multimedia Games has made forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. Such forward-looking statements include, but are not limited to, statements regarding future actions, operating results, liquidity, capital expenditures, cash management and financial discipline, product, system and platform development and enhancements, customer and strategic relationships with third parties, strategies, initiatives, legal and regulatory uncertainties, including outcomes of litigation, the effects of such outcomes upon our business, changes in existing laws and regulations or in the interpretation of such laws and regulations, entry into new markets or jurisdictions or the obtaining of new licenses. The forward-looking statements may be preceded by, followed by or include the words "may," "might," "plan," "estimate," "expect," "intend," "believe," "should," "would," "could," "anticipate," negative or other variations thereof or comparable terminology that convey the uncertainty of future events or outcomes. All forward-looking statements are based on current expectations and projections of future events. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

Forward-looking statements are not guarantees of performance. You should understand that the factors discussed in Item 1A of Part I of this Annual Report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Actual results could differ materially from those stated or implied by our forward-looking statements, due to risks and uncertainties associated with our business or under different assumptions or conditions. You should not place undue reliance on any of these forward- looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

Multimedia Games designs, manufactures and supplies gaming machines and systems to casino operators in North America, domestic and selected international lottery operators, and commercial bingo gaming facility operators. Our standalone gaming machines are primarily sold and placed in Class III settings, while our central determinant and server-based centrally-linked products and systems are primarily sold and placed in Class II, video lottery terminal and electronic bingo settings. The Company serves the commercial and Native American gaming markets. We derive the majority of our gaming revenue from participation, or recurring revenue arrangements, and development and placement fee agreements, all of which operate on a participation (revenue share) or fixed-fee basis. We enter into development and placement fee agreements to provide financing for new gaming facilities or for the expansion of existing facilities in exchange for a certain amount of floor space for a contracted period of time. All or a portion of the funds provided under development agreements are reimbursed to the Company, while funding under placement fee agreements is not reimbursed. For more information on our development, placement and participation arrangements, please see "Results of Operations" below.

We also generate revenue from the sale of gaming units and systems that feature proprietary game content and licensed game content. We continue to seek to increase participation and for-sale revenues by expanding into additional gaming jurisdictions and into other segments of the gaming market. We also generate revenues by providing the central determinant system operated by the New York State Division of the Lottery for the video lottery terminals installed at racetracks in the State of New York.

We are focused on growing by executing a business plan focused on the following key initiatives: Class II and Class III product expansion in existing and new jurisdictions throughout North America, profit increases through prudent expense management and capital investments, and the creation of products and technologies that can contribute to our growth into new markets, pending regulatory approvals.

As part of our revenue growth initiative, we remain focused on expanding market share through new product introductions and more effective utilization of sales and marketing efforts across the organization. The creation of our proprietary products and market expansion is a key area of focus for our company. As a result of these efforts, during fiscal 2013, we saw growth in both our domestic installed base and our unit sale business. We expect fiscal 2014 revenue growth will continue to be driven by further increases in the domestic installed base as well as growth in new unit sales, although such growth and increases may be at a lower rate than in fiscal 2013.

BUSINESS STRATEGY

We are currently focused on executing a business strategy focused on developing high performing gaming products, investing in our gaming operations, expanding our total addressable market to include new gaming jurisdictions, and driving continued profitability and cash flow.

Product Development

One of our top priorities is investing in research and development activities to expand our product portfolio and build on the recent success of our newest high-earning games. The creation of a consistent number of high-earning games is critical to our ability to enter new markets, expand our existing footprint and keep our installed base of games fresh by allowing the Company to better serve a growing number of our customer needs, more effectively maintain the performance of our installed base, and better support a growing footprint of games, particularly within a single customer facility.

By expanding our portfolio, we are able to work closely with our customers to more fully serve their needs, allowing us to forge deeper relationships with our customers and expand the scope of our market opportunity.

Our growing library of Class II and Class III content also allows us more flexibility in managing our existing installed base. A growing library permits us to more quickly replace titles within our installed base whose performance is in decline with fresh, higher performing content. Additionally, by offering our customers a greater choice when purchasing our gaming machines for use in their facilities, we can better support a larger footprint of games, effectively increasing our addressable market for game sales.

- Class II: The development of high-performing Class II content enables us to continue to serve our largest customer and, given the renewed focus on Class II content by our tribal customers, provides us with the opportunity to better serve our existing customers and secure new relationships with new tribal customers.
- Class III: Our investment in Class III game development is yielding new games and play features that provide enhanced entertainment experiences.

Gaming Operations Investment

We are also focused on investing in the maintenance and growth of our existing domestic installed base through new participation arrangements, the extension of placement or development agreements and continuous revamping of existing games with new high performing games. We are also investing in new markets as they become available through the licensing process.

We seek to continue to replace older third party units with our own proprietary games and content in order to better position the Company to generate a higher return on our investments in gaming technology and on our investments in securing floor space at our key customers' facilities. This proprietary product includes our Class II and Class III titles.

Furthermore, we are focused on expanding our addressable markets to include new commercial and tribal jurisdictions. We are committed to offering to new customers in the jurisdictions where we are newly licensed our products on a participation basis and believe our expanded product portfolio positions us to leverage our product development and licensing investments by further expanding our participation installed base.

Addressable Market Expansion

We continue a concerted effort to expand our total addressable market by targeting new gaming jurisdictions across North America and seeking new gaming licenses. We have leveraged our expanding game portfolio investments to target customers in the jurisdictions where the Company is newly licensed and to expand our national reach.

Profitability Growth

The final key piece of our long-term growth strategy is leveraging our focus on fiscal discipline to generate strong profitability and solid free cash flow, setting the stage for continued success. By generating strong financial returns in our business, we are further able to invest in the balance of our long-term growth strategy by developing additional new proprietary games, refreshing our existing installed base with high-performing games and expanding our installed base, and further expanding the number of markets where we are licensed.

RESULTS OF OPERATIONS

Below are our revenues and costs and expenses for fiscal 2013, 2012 and 2011. This information should be read in conjunction with our Consolidated Financial Statements and notes thereto.

	September 30,			September 30,		
	2013	2012	% change	2012	2011	% change
	(in thousands)			(in thousands)		
Revenue						
Gaming Operations						
Participation revenue	$115,624	$96,426	19.9 %	$96,426	$86,107	12.0 %
Lottery	17,016	15,584	9.2 %	15,584	9,369	66.3 %
Gaming Equipment and Systems Sales						
Player terminal and equipment sales	41,520	33,626	23.5 %	33,626	23,243	44.7 %
Systems and Licensing	13,019	9,167	42.0 %	9,167	7,666	19.6 %
Other Revenue	2,187	1,373	59.3 %	1,373	1,470	(6.6)%
Total Revenue	189,366	156,176	21.3 %	156,176	127,855	22.2 %
Costs and Expenses						
Cost of gaming operations revenue	13,803	12,547	10.0 %	12,547	12,478	0.6 %
Cost of revenues equipment and systems sales	23,143	18,548	24.8 %	18,548	14,623	26.8 %
Selling, general and administrative	48,350	46,451	4.1 %	46,451	38,700	20.0 %
Write off, Reserves and Impairment	—	1,187	(100.0)%	1,187	2,013	(41.0)%
Research and development	16,842	15,082	11.7 %	15,082	12,930	16.6 %
Amortization and depreciation	34,846	38,270	(8.9)%	38,270	40,957	(6.6)%
Other income (expense), net	(615)	1,206	(151.0)%	1,206	225	436.0 %

The following tables set forth our end-of-period installed base of player terminals as of September 30, 2013, 2012 and 2011.

	At September 30			At September 30		
End-of-period domestic installed player terminal base:	2013	2012	% change	2012	2011	% change
Oklahoma	8,216	7,922	3.7 %	7,922	7,500	5.6 %
Washington	631	338	86.7 %	338	224	50.9 %
California	798	588	35.7 %	588	306	92.2 %
New York	669	631	6.0 %	631	625	1.0 %
Wisconsin	242	200	21.0 %	200	200	— %
Other(1)	1,884	991	90.1 %	991	524	89.1 %
Total domestic participation units	12,440	10,670	16.6 %	10,670	9,379	13.8 %

(1) Player terminals located in Mexico have been excluded from this data, which included 913 units as of 9/30/2012 and 3,475 units 9/30/2011.

The participation units and revenue can be further delineated between units under development agreements, placement fee agreements and participation arrangements as follows as of September 30:

	2013 Participation		% of Total Revenue		2012 Participation		% of Total Revenue		2011 Participation		% of Total Revenue	Fee Ranges	Expiration Ranges
	Units	Revenue (In thousands)			Units	Revenue (In thousands)			Units	Revenue (In thousands)			
Development Agreements	2,927	$ 32,018	16.9	%	3,825	$ 36,585	23.4	%	3,804	$ 35,003	27.4	% 20% to 30%	Mar. 2015 to Oct. 2018
Placement Fee Agreements	3,347	$ 15,647	8.3	%	2,123	$ 13,938	8.9	%	1,394	$ 9,343	7.3	% 20%	Apr. 2014 to Dec. 2017
Participation Arrangements	6,166	$ 67,958	35.9	%	5,635	$ 45,903	29.4	%	7,656	$ 41,762	32.7	% 7% to 30%	N/A
Total	12,440	$ 115,624	61.1	%	11,583	$ 96,426	61.7	%	12,854	$ 86,107	67.3	%	

All of these agreements or arrangements provide us with the ability to place player terminals on a customer's casino floor, generally for some contracted period of time, for either a share of the revenues that these terminals and systems generate or for a fixed daily lease fee. We define development agreements as those arrangements in which funds are provided to a casino operator to be used for the construction of a new facility or the renovation of an existing facility that are contracted to be refunded to us, generally in monthly installments. Placement fee agreements, however, provide similar funding to the customer but are generally not designated for a particular purpose and are not refunded to us. Participation arrangements are less formal arrangements that allow for product to be placed on a customer's floor, but do not have a designated term which provides both the customer and us the flexibility to make changes to the number of player terminals placed in the casino.

Fiscal 2013 Compared to Fiscal 2012

Total revenues in fiscal 2013 were $189.4 million, compared to $156.2 million in fiscal 2012, a $33.2 million, or 21.3% increase, primarily due to an increase in proprietary unit sales and entry into new markets.

Gaming Operations – Participation Revenue

- Oklahoma gaming revenues were $61.1 million in fiscal 2013, compared to $62.7 million in fiscal 2012, a decrease of $1.5 million, or 2.5%. Oklahoma’s end of period unit count as of September 30, 2013 was 8,216 compared to 7,922 as of September 30, 2012, a 294 unit or 3.7% increase, with the majority of the increase taking place in the last quarter of fiscal 2013. The decrease in revenue from Oklahoma is the result of a decrease in gaming activity on our units at our largest customers' facilities in fiscal 2013 compared to fiscal 2012.

- Washington gaming revenues were $16.2 million in fiscal 2013, compared to $10.7 million in fiscal 2012, an increase of $5.5 million, or 51.8%. Washington's end of period unit count as of September 30, 2013 was 631 compared to 338 as of September 30, 2012, a 293 unit or 86.7% increase. The increase in gaming operations revenue was primarily the result of the increase in participation units and an increase in back office fees received on player terminals sold into the market which utilizes our back office equipment.

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Revenues from California were $11.5 million in fiscal 2013, compared to $6.1 million in fiscal 2012, an increase of $5.4 million, or 87.8%. California's end of period unit count as of September 30, 2013 was 798 compared to 588 as of September 30, 2012, a 210 unit or 35.7% increase. The increase in gaming operations revenue relates to the addition of participation units during fiscal 2013 and during the last fiscal quarter of 2012.

- Revenues from the New York market were $4.7 million in fiscal 2013 and $4.4 million in fiscal 2012, an increase of $0.4 million or 8.4%. The increase in gaming operations revenue primarily relates to the increase in the number of participation units. End of period unit counts in New York at the end of fiscal 2013 were 669 compared to 631 in fiscal 2012, an increase by 38 unit, or 6.0%.

- Wisconsin gaming revenues increased $1.1 million, or 38.9%, to $3.8 million in fiscal 2013, compared to $2.8 million in fiscal 2012. The increase in revenue relates to an increase in yields from product replacements and an increase in player terminals. End of period unit counts in Wisconsin were 242 at the end of fiscal 2013, compared to 200 as of fiscal 2012, a 42 unit, or 21.0% increase.

- Other gaming operations revenue relates to participation revenue from other jurisdictions, including Alabama, Texas, Minnesota, Kansas, Idaho, Michigan, Mississippi, Nebraska, New Jersey, Nevada, Louisiana, Florida, Connecticut, New Mexico, Arizona, Arkansas, Indiana, Iowa, Ohio, Illinois, North Dakota, Mexico and Rhode Island. Combined gaming revenue from these jurisdictions in fiscal 2013 were $18.3 million compared to $9.9 million in fiscal 2012, a $8.4 million, or 85.2%, increase. The increase in gaming operations revenue from these jurisdictions was primarily the result of an increase in our domestic installed base of participation units, which increased 90.1% to 1,884 in fiscal 2013 from 991 in fiscal 2012.

Gaming Operations – Lottery

- Revenues from the New York Lottery system increased $1.4 million, or 9.2%, to $17.0 million in fiscal 2013, from $15.6 million in fiscal 2012. The increase in revenue within the New York Lottery system relates to an increase in the number of video lottery terminals and electronic table games from 16,900 as of September 30, 2012 to 17,600 as of September 30, 2013. These terminals and games are not our units, thus are not included in our installed base; instead we provide the back office system and receive a percentage of the net win generated by these terminals and games from the New York Lottery.

Gaming Equipment and System Sales –Player Terminal and Equipment Sales

- Player terminal and equipment sales were $41.5 million in fiscal 2013, compared to $33.6 million in fiscal 2012, an increase of $7.9 million or 23.5%. Player terminal sales in fiscal 2013 were $38.4 million on the sale of 2,678 proprietary units, compared to sales of $29.5 million on the sale of 1,961 proprietary units in fiscal 2012. The player terminal and equipment sales increase is attributable to continued growth in new markets and continued penetration into existing markets. Gaming equipment sales were $2.1 million in fiscal 2013 compared to $2.1 million in fiscal 2012 period. Player terminal and equipment sales also include $1.1 million and $2.0 million related to deferred revenue recognized during fiscal 2013 and fiscal 2012, respectively, due to final execution of deliverables or mutual agreement to changes in contract terms.

Gaming Equipment and System Sales – Systems and Licensing

- Systems and licensing sales revenue was $13.0 million in fiscal 2013, compared to $9.2 million in 2012, a $3.9 million or 42.0% increase. Systems and licensing revenue for fiscal 2013 relates to (i) $10.2 million of licenses associated with the player terminal sales during the period; (ii) $2.5 million of license revenue from game conversions; and (iii) $322,000 of systems and game themes sold in prior periods being amortized to revenue from deferred revenue over the contract period. Systems and licensing revenue in fiscal 2012 relates to (i) $6.8 million of licenses associated with the player terminal sales during the period; (ii) $1.7 million of license revenue from game conversions; and (iii) $665,000 of systems and game themes sold in prior periods being recognized from deferred revenue during the period. The increase in the year for systems and licensing is primarily attributable to the increase in sale of licenses related to player terminal sales.

Other Revenue

- Other revenue was $2.2 million in fiscal 2013, compared to $1.4 million in fiscal 2012, a $814,000, or 59.3%, increase. This increase primarily relates to entry fees and sponsorships, net of expenses, associated with the 2013

National Tournevent of Champions.

Cost of Gaming Operations Revenue

Total cost of gaming operations revenue, which includes field service and network operations personnel, as well as royalty and participation fees, increased $1.3 million, or 10.0%, to $13.8 million in fiscal 2013, from $12.5 million in fiscal 2012. The increase relates to an increase in field service personnel to service the expanding jurisdictional installed based and increased costs associated with service or upgrade of previously deployed units.

Cost of Equipment & System Sales

Cost of equipment and system sales, which includes the cost of goods sold for player terminals and other equipment and system sales, increased $4.6 million, or 24.8%, to $23.1 million in fiscal 2013, from $18.5 million in fiscal 2012, primarily due to the increase in player terminal equipment sales. Costs of revenues related to player terminal sales were $21.6 million and $16.1 million in fiscal 2013 and fiscal 2012, respectively. Cost of equipment and system sales in fiscal 2013 includes $912,000 related to the sale of gaming equipment during the period compared to $1.3 million in fiscal 2012. In addition, costs of prior period shipments being amortized from deferred revenue over the contract period were $651,000 in fiscal 2013 compared to $1.2 million in fiscal 2012.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A, increased approximately $1.9 million, or 4.1%, to $48.4 million in fiscal 2013, from $46.5 million in fiscal 2012. This increase was primarily a result of an increase in (i) salaries and wages and employee benefits of $1.2 million to retain and attract employees; (ii) stock compensation expense of $508,000; and (iii) long term incentives of $356,000.

Write-off, reserve and impairment charges

The Company had no write-off, reserve and impairment charges in fiscal 2013, compared to $1.2 million in fiscal 2012. The write-off, reserve and impairment charges recorded in fiscal 2012 consisted of a reserve for a Mexico income tax assessment during the period due to a change in the status of the claim.

Research & Development

Research and development expenses increased approximately $1.8 million, or 11.7%, to $16.8 million in fiscal 2013, from $15.1 million in fiscal 2012. Our research and development costs increased primarily due to salaries and wages and contract labor related to our focused efforts to produce new and innovative gaming machines and game titles.

Depreciation and Amortization

Depreciation expense decreased $4.9 million, or 14.5%, to $28.8 million in fiscal 2013 from $33.7 million in fiscal 2012, primarily as a result of a change in the depreciable lives of leased gaming equipment reflected in our rental pool effective as of October 1, 2012. It was determined that a four year depreciable life on leased gaming equipment more accurately reflected the current age of leased gaming equipment on customers' floors, the current and historical replacement rate and the useful lives used for comparable assets by our competitors. Amortization expense increased $1.5 million, or 31.8%, to $6.0 million in fiscal 2013, compared to $4.6 million in fiscal 2012, primarily because of an increase in capitalized software costs, which led to an increase in the associated amortization expense.

Other Income and Expense

Interest income decreased $1.1 million, or 68.4%, to $491,000 in fiscal 2013, from $1.6 million in fiscal 2012 due to reduced outstanding note receivable balances. During fiscal 2013, the Company recorded imputed interest of $379,000 relating to development agreements with an imputed interest rate range of 2.96% - 5.25%, compared to $1.3 million for the same period in fiscal 2012.

Interest expense decreased $253,000, or 18.2%, to $1.1 million in fiscal 2013, from $1.4 million in fiscal 2012 due to the quarterly scheduled principal payments reducing the outstanding debt balance and a 25 bps reduction in the interest rate charged under our Credit Agreement.

Other income decreased $1.0 million to $33,000 in fiscal 2013, from $1.0 million in fiscal 2012. The 2012 figure primarily relates to a gain on the exchange of used equipment with a third party equipment supplier.

Income Taxes

Income tax expense increased to $16.8 million in fiscal 2013, compared to a benefit of $2.9 million in fiscal 2012. These figures represent an effective tax rate of 32.5% and (11.4%) in fiscal 2013 and fiscal 2012, respectively. As of September 30, 2013, management considered the likelihood of realizing the future benefits associated with the Company's existing deductible temporary differences and carryforwards. Management assesses the likelihood that deferred tax assets will be realized, and recognizes a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction.

- We do not have a valuation allowance against any of our domestic deferred tax assets. The Company continues to experience both taxable income and projected future earnings, accordingly we determined that it is more likely than not that we will realize the benefits associated with our U.S. deferred tax assets. In Mexico we continue to experience tax losses and therefore management determined that it is not more likely than not that the future benefit associated with all of our existing deductible temporary differences and carryforwards in Mexico will be realized. As a result, we have maintained a full valuation allowance against all of our remaining Mexican deferred tax assets.

- We expect our effective tax rate in fiscal 2014 to be in the range of 36%-38%. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business.

- The Financial Accounting Standards Board (FASB) has issued Accounting Standard Codification (ASC) Topic 740, “Income Taxes” (formerly issued as FASB Interpretation No. 48, or FIN 48, “Accounting for Uncertainty in Income Taxes,” an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, “Accounting for Income Taxes”) to clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC Topic 740 also prescribes a recognition threshold and measurement attribute for the financial statement recognition, and for the measurement of a tax position taken or expected to be taken in a tax return. The FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted ASC Topic 740 in the first quarter of fiscal 2008. During the fiscal year ended September 30, 2013 management eliminated a previously recorded reserve for uncertain tax positions related to our Mexico operations. Therefore, as of September 30, 2013 no liabilities exist for uncertain tax positions.

Fiscal 2012 Compared to Fiscal 2011

Total revenues in fiscal 2012 were $156.2 million, compared to $127.9 million in fiscal 2011, a $28.3 million, or 22.2% increase, primarily due to an increase in proprietary unit sales and entry into new markets.

Gaming Operations – Participation Revenue

- Oklahoma gaming revenues were $62.7 million in fiscal 2012, compared to $60.8 million in fiscal 2012, an increase of $1.9 million, or 3.1%. Oklahoma’s end of period unit count as of September 30, 2012 was 7,922 compared to 7,500 as of September 30, 2011, a 422 unit or 5.6% increase, with the majority of the increase taking place in the last quarter of fiscal 2012.

- Washington gaming revenues were $10.7 million in fiscal 2012, compared to $6.9 million in fiscal 2011, an increase of $3.7 million, or 53.5%. Washington's end of period unit count as of September 30, 2012 was 338 compared to 224 as of September 30, 2011, a 114 unit or 50.9% increase. The increase in gaming operations revenue was primarily the result of an increase in back office fees received on player terminals sold in a market which utilizes our back office equipment.

- Revenues from California were $6.1 million in fiscal 2012, compared to $2.3 million in fiscal 2011, an increase of $3.8 million, or 164.2%. California's end of period unit count as of September 30, 2012 was 588 compared to 306 as of September 30, 2011, a 282 unit or 92.2% increase. The increase in gaming operations revenue relates to the increase in participation units. The majority of units in fiscal 2011 were not installed until the latter part of the fiscal year.

- Revenues from the Mexico market were $2.0 million in fiscal 2012 and $7.0 million in fiscal 2011, a decrease of $5.0 million or 71.3%. As of September 30, 2012, we had 913 player terminals installed in Mexico compared to 3,475 player terminals installed as of September 30, 2011. The reduction in the number of units and corresponding reduction in revenue relates to our planned strategy to optimize our deployed capital in Mexico by removing older games from our customer locations and replacing units at a conservative pace to maximize the return on investment.

- Alabama gaming revenues increased $842,000, or 56.1%, to $2.3 million in fiscal 2012, compared to $1.5 million in fiscal 2011. The increase in revenue relates to the increase in player terminals. Revenue generated in fiscal 2012 and fiscal 2011 for Alabama relates exclusively to Native American customers within the state.

- Other gaming operations revenue relates to participation revenue from other states, including Wisconsin Texas, New York, Minnesota, Kansas, Idaho, Michigan, Mississippi, Louisiana, Florida, Connecticut, New Mexico, Arizona, Arkansas, Indiana, Iowa, Ohio, and Rhode Island. Gaming revenue from these states combined was $12.7 million in

fiscal 2012 compared to $7.6 million in fiscal 2011, a $5.0 million or 66.2%, increase. The end of period participation unit count for these states reduced 32.2% to 1,623 as of September 30, 2012 from 1,228 as of September 30, 2011. The increase in gaming operations revenue was primarily the result of an increase in our installed base of participation games.

Gaming Operations – Lottery

- Revenues from the New York Lottery system increased $6.2 million, or 66.3%, to $15.6 million in fiscal 2012, from $9.4 million in fiscal 2011. The increase is attributable to the opening of the Resorts World Casino in New York, New York, which resulted in the addition of 2,500 video lottery terminals and electronic table games on October 28, 2011 and approximately 2,500 additional units on December 15, 2011. This increased the total number of units within the New York Lottery system from 12,500 as of September 30, 2011 to approximately 16,900 as of September 30, 2012. The unit count as of September 30, 2012 reflects a temporary removal of some units due to remodeling at two casinos. These terminals and games are not our units, thus are not included in our installed base; instead we provide the back office system and receive a percentage of the net win generated by these terminals and games from the New York Lottery.

Gaming Equipment and System Sales –Player Terminal and Equipment Sales

- Player terminal and equipment sales were $33.6 million in fiscal 2012, and $23.2 million in fiscal 2011, an increase of $10.4 million or 44.6%. Player terminal sales in fiscal 2012 were $29.5 million on the sale of 1,961 proprietary units, compared to sales of $17.5 million on the sale of 1,150 proprietary units in fiscal 2011. The player terminal and equipment sales increase is attributable to continued growth in new markets and continued penetration into existing markets. Gaming equipment sales were $2.1 million in fiscal 2012 compared to $2.7 million in fiscal 2011. Player terminal and equipment sales also include $2.0 million and $3.1 million related to deferred revenue recognized during fiscal 2012 and fiscal 2011, respectively, due to final execution of deliverables.

Gaming Equipment and System Sales – Systems and Licensing

- Systems and licensing sales revenue was $9.2 million in fiscal 2012, compared to $7.7 million in fiscal 2011, a $1.5 million or 19.7% increase. Systems and licensing revenue for fiscal 2012 relates to (i) $6.8 million of licenses associated with the player terminal sales during the period; (ii) $1.7 million of license revenue from game conversions; and (iii) $665,000 of systems and game themes sold in prior periods being amortized to revenue from deferred revenue over the contract period. Systems and licensing revenue in fiscal 2011 relates to (i) $4.3 million of systems and game themes sold in prior periods being recognized from deferred revenue during the period; (ii) $3.0 million of licenses associated with the player terminal sales during the period; and (iii) $411,000 of license revenue from game conversions. The increase in the year for systems and licensing is primarily attributable to the increase in sale of licenses related to player terminal sales.

Other Revenue

- Other revenue was $1.4 million in fiscal 2012 and $1.5 million in fiscal 2011 a $97,000, or 6.6%, decrease. This reduction relates to a decrease in maintenance and service contracts in fiscal 2012.

Cost of Gaming Operations Revenue

- Total cost of gaming operations revenue, which includes field service and network operations personnel, as well as royalty and participation fees remained constant at approximately $12.5 million in fiscal 2012 and fiscal 2011.

Cost of Equipment & System Sales

Cost of equipment and system sales, which includes the cost of goods sold for player terminals and other equipment and system sales, increased $3.9 million, or 26.8%, to $18.5 million in fiscal 2012, from $14.6 million in fiscal 2011, primarily due to the increase in player terminal equipment sales. Costs of revenues related to player terminal sales were $16.1 million and $8.7 million in fiscal 2012 and fiscal 2011, respectively. Cost of equipment and system sales in fiscal 2012 includes $1.3 million related to the sale of gaming equipment during the period and $1.2 million of costs of prior period shipments being amortized from deferred revenue over the contract period. Cost of equipment and system sales in fiscal 2011 includes $4.7 million of costs of prior period shipments being amortized from deferred revenue over the contract period and $1.2 million related to the sale of gaming equipment during the period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A, increased approximately $7.8 million, or 20.0%, to $46.5 million in fiscal 2012, from $38.7 million in fiscal 2011. This increase was primarily a result of an increase in (i) salaries and wages and employee benefits of $2.1 million to retain and attract employees; (ii) stock compensation expense of $1.9 million; (iii) long term incentives of $1.5 million; (iv) annual incentives of $784,000; (v) advertising and promotions of $600,000; and (vi) other taxes and license fees of $583,000.

Write-off, reserve and impairment charges

Write-off, reserve and impairment charges in fiscal 2012 were $1.2 million, a decrease of $826,000, or 41.0%, compared to $2.0 million in fiscal 2011. The write-off, reserve and impairment recorded charges in fiscal 2012 consisted of a reserve for a Mexico income tax assessment during the current period due to a change in the status of the claim. The write-off, reserve and impairment charges in fiscal 2011 consisted of (i) an $821,000 write-off of older equipment deemed obsolete due to changes in the rate of adoption of our newer proprietary game content; (ii) a $484,000 payment for a central system service interruption; (iii) a $355,000 write-off of prepaid loan fees in conjunction with the refinancing of our credit facility; (iv) a $203,000 write-off of install costs at the Alabama locations associated with our voluntary withdrawal from the charitable bingo market; and (v) $150,000 related to a Mexico customs audit.

Research & Development

Research and development expenses increased approximately $2.2 million, or 16.6%, to $15.1 million in fiscal 2012, from $12.9 million in fiscal 2011. Our research and development costs increased primarily due to salaries and wages, due to increased headcount and continued efforts to attract and retain employees, independent testing lab fees, and contract labor.

Depreciation and Amortization

Depreciation expense decreased $3.6 million, or 9.6%, to $33.7 million in fiscal 2012 from $37.3 million in fiscal 2011, primarily as a result certain assets becoming fully depreciated. Amortization expense increased $911,000, or 24.8%, to $4.6 million in fiscal 2012, compared to $3.7 million in fiscal 2011, primarily because of an increase in capitalized software costs, which led to an increase in the associated amortization expense.

Other Income and Expense

Interest income decreased $1.0 million, or 39.4%, to $1.6 million in fiscal 2012, from $2.6 million in fiscal 2011 due to reduced outstanding note receivable balances. During fiscal 2012, the Company recorded imputed interest of $1.3 million relating to development agreements with an imputed interest rate range of 5.25% to 9.0%, compared to $2.3 million for the same period in fiscal 2011.

Interest expense decreased $1.7 million, or 54.5%, to $1.4 million in fiscal 2012, from $3.1 million in fiscal 2011 due to a significant reduction in interest rates charged under our Credit Agreement and a reduction in the outstanding debt balance.

Other income increased $322,000 to other income of $1.0 million in fiscal 2012, from $723,000 in fiscal 2011. The increase primarily relates to a gain on the exchange of used equipment with a third party equipment supplier.

Income Taxes

Income tax expense decreased to a benefit of $2.9 million in fiscal 2012, compared to an expense of $702,000 in fiscal 2011. These figures represent an effective tax rate of (11.4%) and 11.0% in fiscal 2012 and fiscal 2011,

respectively. As of September 30, 2012, management considered the likelihood of realizing the future benefits associated with the Company's existing deductible temporary differences and carryforwards. Management assesses the likelihood that deferred tax assets will be realized, and recognizes a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction.

We believe that as of September 30, 2012 the objective and verifiable evidence of our historical pretax net income (three year cumulative book net income was achieved during the fourth fiscal quarter of 2012), coupled with sustained taxable

income and projected future earnings outweighs the negative evidence of our previous year losses related to our United States income taxes. Therefore, we determined that it is more likely than not that we will realize the benefits associated with our deferred tax assets in the United States. As a result, we decreased our valuation allowance by approximately $12.7 million during fiscal 2012 such that no valuation allowance has been recorded against our U.S. deferred tax assets at September 30, 2012. In Mexico we continue to experience tax losses and therefore management determined that it is not more likely than not that the future benefit associated with all of our existing deductible temporary differences and carryforwards in Mexico will be realized. As a result, we have maintained a full valuation allowance against all of its remaining Mexican deferred tax assets.

The Financial Accounting Standards Board (FASB) has issued Accounting Standard Codification (ASC) Topic 740, “Income Taxes” (formerly issued as FASB Interpretation No. 48, or FIN 48, “Accounting for Uncertainty in Income Taxes,” an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, “Accounting for Income Taxes”) to clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC Topic 740 also prescribes a recognition threshold and measurement attribute for the financial statement recognition, and for the measurement of a tax position taken or expected to be taken in a tax return. The FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted ASC Topic 740 in the first quarter of fiscal 2008. During the fiscal year ended September 30, 2012 management increased the liability related to uncertain tax positions for an additional tax uncertainty related to our Mexico operations, as well as an estimated interest amount. The liability related to uncertain tax positions was also reduced during the year for a previously recognized uncertainty that has been effectively settled. The resulting liability related to uncertain tax positions at September 30, 2012, including interest and penalties, was approximately $1.6 million.

RECENT ACCOUNTING PRONOUNCEMENTS

Recently issued accounting pronouncements not yet adopted

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities" ("ASU No. 2011-11") to require new disclosures about offsetting assets and liabilities which requires an entity to disclose information about financial instruments that have been offset and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. ASU No. 2011-11 is for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company expects to adopt this guidance during its 2014 fiscal year and does not expect it will have a significant impact on its consolidated results of operations, financial condition and cash flows.

In February 2013, the FASB issued ASU No. 2013-02, “Comprehensive Income - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU No. 2013-02”) to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU No. 2013-02 is effective for annual reporting periods beginning on or after December 15, 2012. The Company expects to adopt this guidance during its 2014 fiscal year and does not expect it will have a significant impact on its consolidated results of operations, financial condition and cash flows.

In March 2013, the FASB issued ASU No. 2013-05, “Foreign Currency Matters - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity” (“ASU No. 2013-05”) which permits companies to release cumulative translation adjustments into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into earnings only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. ASU No. 2013-05 is effective for annual reporting periods beginning on or after December 15, 2013. The

Company expects to adopt this guidance during its 2015 fiscal year and does not expect it will have a significant impact on its consolidated results of operations, financial condition and cash flows.

In July 2013, the FASB issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists(Topic 740)” (“ASU No. 2013-11”) to provide explicit guidance and eliminate the diversity in practice on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU No. 2013-11 is effective for annual reporting periods beginning on or after December 15, 2013. The Company expects to adopt this guidance during its 2015 fiscal year and does not expect it will have a significant impact on its consolidated results of operations, financial condition and cash flows.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2013, we had $102.6 million in unrestricted cash and cash equivalents, compared to $73.8 million as of September 30, 2012. During the years ended September 30, 2013 and 2012, we received approximately $8.3 million and $17.3 million, respectively, from notes receivable, of which $7.7 million and $15.8 million, respectively, were collected on development agreements. Our working capital as of September 30, 2013 was $123.5 million, compared to $87.1 million at September 30, 2012. The increase in working capital was primarily the result of an increase in cash collections from notes and accounts receivable and the exercises of stock options, as well as an increase in accounts receivable and inventory due to increased sales volumes. During the year ended September 30, 2013, we used $48.6 million for capital expenditures of property and equipment compared to $45.2 million for the year ended September 30, 2012. In addition, we have $29.6 million outstanding and $37.0 million available for future borrowings under our Credit Agreement, subject to covenant restrictions (see the discussion of our Credit Agreement below). Availability under the Credit Agreement is reduced to the extent of a $3.5 million outstanding letter of credit.

Our principal sources of liquidity have been cash generated by operations, available cash and cash equivalents, and amounts available under our Credit Agreement. Absent any significant change in market condition, we expect anticipated working capital and capital expenditure requirements for the next twelve months will be funded by these sources. There can be no assurance, however, that we will continue to generate cash flows at or above current levels or that our Credit Agreement and other sources of capital will be available to us in the future.

As of September 30, 2013, our total contractual cash obligations were as follows (in thousands):

	Payments due by period				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Credit Agreement Term Loan[1]	$3,700	$25,900	$—	$—	$29,600
Estimated Interest Payments[1]	793	1,177	—	—	1,970
Operating Lease Obligations[2]	2,043	3,350	242	—	5,635
Purchase Commitments	16,529	721	—	—	17,250
Total	$23,065	$31,148	$242	$—	$54,455

(1) Consists of principal amounts outstanding under the term loan to our Credit Agreement and estimated interest payments at the Eurodollar rate plus the applicable spread (2.94% as of September 30, 2013).
(2) Consists of operating leases for our facilities and office equipment.

During fiscal 2013, we generated $76.5 million in cash from our operations, an increase of $2.0 million, or 2.6%, from $74.5 million during fiscal 2012. The increase was primarily the result of (i) a $6.8 million increase in net income and (ii) $11.0 million increase in deferred income taxes, offset by (i) a $3.4 million decrease in amortization and depreciation; (ii) a decrease of $8.4 million in notes receivable; (iii) a $6.8 million increase in federal and state income tax receivables and (iv) a $5.3 million increase in inventory.

During fiscal 2012, we generated $74.5 million in cash from our operations, an increase of $6.0 million, or 8.7%, from $68.6 million during fiscal 2011. The increase was primarily the result of a $22.5 million increase in net income and a decrease of $4.0 million in inventory purchases, partially offset by a decrease of $19.6 million in the federal and state tax receivable.

Cash used in investing activities increased $7.6 million, or 14.9%, to $58.7 million, in fiscal 2013, from $51.1 million during fiscal 2012. The increase was primarily the result of increases in capital expenditures of $3.4 million and an increase in software capitalization of $3.2 million; offset by decreases in advances under development and placement

agreements of $7.0 million and repayments by customers under development agreements of $8.1 million.

Cash used in investing activities increased $20.9 million, or 69.1%, to $51.1 million, in fiscal 2012 from $30.2 million during fiscal 2011. The increase was primarily the result of increases in placement fee agreement payments of $12.6 million, and capital expenditures of $7.8 million, partially offset by an increase in repayments under development agreements of $863,000.

Additions to property and equipment and leased gaming equipment consisted of the following:

	2013	2012	2011
	(In thousands)		
Gaming equipment	$42,567	$38,063	$29,932
Third-party gaming content licenses	2,358	1,860	5,176
Other	3,699	5,297	2,268
Additions to property and equipment and leased gaming equipment	$48,624	$45,220	$37,376

Cash provided by financing activities increased by $7.3 million, or 198.0%, to $11.0 million during fiscal 2013, from $3.7 million in fiscal 2012. The increase was primarily the result of an increase of $9.8 million of tax benefit from the exercise of stock options, offset by a $3.0 million increase in the purchase of our common stock during fiscal 2013 compared to fiscal 2012.

Cash provided by financing activities increased by $17.4 million, or 127.0%, to $3.7 million during fiscal 2012, from a usage of $13.7 million in fiscal 2011. The increase in cash provided by financing activities was primarily the result of (i) a $8.2 million decrease in the purchase of our common stock; (ii) a $4.8 million increase of proceeds related to the exercise of stock options; and (iii) a decrease of principal payments on long term debt during fiscal 2012 compared to fiscal 2011.

Our capital expenditures for the next 12 months will depend upon the number of new player terminals that we are able to place into service at new or existing facilities and the actual number of repairs and equipment upgrades to the player terminals that are currently in the field. We intend to increase the number of new player terminals through expansion into new markets, which we expect will increase our capital expenditures.

Credit Agreement

Our Credit Agreement, long-term debt consisted of the following:

	September 30, 2013	September 30, 2012
	(In thousands)	
Term loan facility	$29,600	33,300
Less: current portion of long-term debt	(3,700)	(3,700)
Long-term debt, less current portion	$25,900	$29,600

On August 3, 2011, certain of our subsidiaries entered into an amended and restated credit agreement with Comerica Bank in its capacity as administrative agent and lead arranger and Wells Fargo Bank, N.A., as syndication agent (the "Credit Agreement"), to provide us with a $74.0 million credit facility which replaced our previous credit facility with Comerica Bank in its entirety. The Credit Agreement consists of three facilities: an approximately $20.6 million revolving credit facility, a $37.0 million term loan, and an approximately $16.4 million draw-to term loan. The Credit Agreement, and advances made thereunder, mature on August 3, 2016. The term loan is amortized on a straight-line basis over a ten-year period, payable in equal quarterly installments of $925,000. The revolving credit facility and the draw-to term loan provide the Company the ability to finance development and placement agreements, acquisitions, and working capital for general corporate purposes. As of September 30, 2013, $29.6 million was outstanding on the term loan which bore interest at 2.94%. No amounts were outstanding on the revolving credit facility and the draw-to term loan; and each facility had approximately $20.6 million and $16.4 million, respectively, available for borrowings as of September 30, 2013. The Company has the ability to draw on the draw-to term loan until February 3, 2014 and on the revolving credit facility until maturity of the credit agreement on August 3, 2016. Availability under the Credit

Agreement is reduced for a $3.5 million outstanding letter of credit.

On September 21, 2012, the Company and the lenders entered into Amendment No. 1 to the Credit Agreement. Amendment No. 1 provides for, among other things, an increase in the limitation on capital expenditures from $40.0 million to $60.0 million annually, an increase in the limitation on debt to finance acquisitions and capital asset purchases from $500,000 to $1.0 million, and an amendment to the applicable margin grid, which provided for a margin reduction of 25 bps in both levels, as further set forth in the table below.

The components of the Credit Agreement will be priced based on an applicable margin grid according to our leverage ratio. Assuming that we utilize LIBOR as the key interest rate driver, effective as of Amendment No. 1, the following margins would apply based on the applicable leverage ratio:

	Level I	Level II
Consolidated Total Leverage Ratio	Less than 0.75 to 1.00	Greater than or equal to 0.75 to 1.00
Term loan	2.75	3.25
Revolving credit facility	2.00	2.50
Draw-to term loan	2.75	3.25

We obtained Level I pricing on December 5, 2011 upon delivering our financial statements for the year ended September 30, 2011 and continue to have Level I pricing subsequent to Amendment No. 1.

The Credit Agreement is collateralized by substantially all of the Company’s assets. We are subject to two primary financial covenants: a total leverage ratio and a fixed charge coverage ratio. The total leverage ratio is calculated as total net funded debt to EBITDA (which is defined in the Credit Agreement as net income before interest expense, tax expense, depreciation and amortization expense, stock compensation expense and any extraordinary, unusual or non-cash non-recurring expenses up to $7.5 million for any trailing twelve month period, less any non-cash income items, including income tax credits, and any extraordinary income or gains). Total net funded debt is defined as total funded debt of the Company less unrestricted cash in excess of $10.0 million. We are required to maintain a total leverage ratio of 1.5 to 1.0.

The fixed charge coverage ratio is calculated as EBITDA minus:

- Income tax expense
- Dividends or other distributions on equity, not funded by the Credit Agreement
- Routine capital expenditures, defined as $2.5 million per quarter
- Repurchases or redemptions of capital stock, not funded by the Credit Agreement
- Payments and advances under development agreements, not funded by the Credit Agreement

Fixed charges include interest expense and all regularly scheduled installments of principal. The Company is required to maintain a fixed charge coverage ratio of 1.2 to 1.0.

Our Credit Agreement contains a restricted payments covenant that places restrictions on our ability to declare or make any distributions, dividend, payment or other distribution on account of our equity interests, subject to certain exceptions, including the payment of cash dividends, so long as pro forma for the payment of such dividends we are in compliance with the Credit Agreement's total leverage ratio and fixed charge coverage ratio financial covenants and no default or event of default has occurred and is continuing or would result in connection with such dividend.

We are currently in compliance with the covenants in the Credit Agreement; however, we cannot be certain that we will be able to achieve our operating objectives for fiscal 2014 and that we will continue to meet our covenants in the Credit Agreement in the future.

If we fail to remain in compliance with the covenants of the Credit Agreement, we will be required to seek modification or waiver of the provisions of that agreement and potentially secure additional sources of capital. We cannot be certain that, if required, we will be able to successfully negotiate additional changes to or waivers of the Credit Agreement. Alternatively, we may incur significant costs related to obtaining requisite waivers or renegotiation

of the Credit Agreement that could have a material and adverse effect on our operating results.

Our performance and financial results are, to a certain extent, subject to general conditions in or affecting the gaming industry, as well as general economic, political, financial, competitive, and regulatory factors beyond our control. If our business does not continue to generate cash flow at appropriate levels or if we receive a material judgment against us in a lawsuit (See generally "Part I - Item 1A. Risk Factors"), we may need to raise additional financing. Sources of additional financing might include additional bank debt or the public or private sale of equity or debt securities. However, sufficient funds may not be available, on terms

acceptable to us or at all, from these sources, or any others, to enable us to make necessary capital expenditures and to make discretionary investments in the future.

Stock Repurchase Authorizations

On November 15, 2012, we announced that our Board of Directors had authorized a program to repurchase up to $40 million of our outstanding common stock over a three-year period. During fiscal 2013, we purchased 303,602 shares of our common stock for approximately $4.8 million at an average cost of $15.92 per share, exclusive of broker fees. At September 30, 2013, approximately $35.2 million of our common stock remains available for repurchase under the program. Pursuant to the stock repurchase program, we may purchase shares from time to time in the open market, through block purchases or in privately negotiated transactions in accordance with Company policies and applicable securities laws. In addition, we have established a 10b5-1 plan, pursuant to which some of the purchases may be made from time to time in the open market, subject to certain pricing parameters. The actual number of shares to be purchased, if any, will depend upon market conditions and purchases are subject to the restrictions in our Credit Agreement. Any shares purchased will be held in the Company's treasury for possible future use. Since December 2010, the Company has purchased approximately 2.5 million shares of its common stock for $16.7 million at an average cost of $6.63 per share, exclusive of broker fees.

Stock-Based Compensation

At September 30, 2013, we had approximately 2.5 million options to purchase common stock outstanding, with exercise prices ranging from $1.97 to $38.98 per share, of which, approximately 1.3 million of the outstanding options to purchase common stock were exercisable.

During the year ended September 30, 2013, options to purchase 102,600 shares of common stock were granted at a weighted average exercise price of $28.22 per share, and we issued 1.4 million shares of common stock as a result of stock option exercises with a weighted average exercise price of $6.43. We also granted to certain employees awards of restricted stock units in the aggregate of 264,950 shares during the year ended September 30, 2013 at an average fair value per share of $24.56.

At September 30, 2012, we had approximately 3.9 million options to purchase common stock outstanding, with exercise prices ranging from $1.61 to $18.71 per share, of which, approximately 1.8 million of the outstanding options to purchase common stock were exercisable.

During the year ended September 30, 2012, options to purchase 1.1 million shares of common stock were granted at a weighted average exercise price of $6.98 per share, and we issued 1.7 million shares of common stock as a result of stock option exercises with a weighted average exercise price of $5.02. We also granted to our non-employee directors restricted stock in the aggregate of 48,000 shares during the year ended September 30, 2012 at an average fair value per share price of $10.16.

SEASONALITY

We believe our operations are not materially affected by seasonal factors, although we have experienced fluctuations in our revenues from period to period.

CONTINGENCIES

For information regarding contingencies, see Note 16 of our Notes to Consolidated Financial Statements "Commitments and Contingencies" and PART I – Item 3. "Legal Proceedings."

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2013, the Company had an outstanding letter of credit issued under our domestic credit facility to ensure payment of a bond to certain Mexican taxing authorities in the amount of $3.5 million. Such off-balance sheet arrangements are not reasonably likely to have a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or resources. See Note 16 of the Notes to Consolidated Financial Statements "Commitments and Contingencies."

INFLATION AND OTHER COST FACTORS

Our operations have not been nor are they expected to be materially affected by inflation. However, our domestic and international operational expansion is affected by the cost of hardware components, which are not considered to be inflation sensitive, but rather,

sensitive to changes in technology and competition in the hardware markets. In addition, we expect to continue to incur increased legal and other similar costs associated with regulatory compliance requirements and the uncertainties present in the operating environment in which we conduct our business. However, this expectation could change depending upon a number of factors, including those described under “Part II - Item 7. Management's Discussion and Analysis - Overview" and "Part I - Item 1A. Risk Factors.”

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The "Management’s Discussion and Analysis of Financial Condition and Results of Operations” includes certain financial measures such as EBITDA, net cash position and free cash flow, all of which may be considered non-GAAP financial measures under the rules of the Securities and Exchange Commission. These non-GAAP financial measures are reconciled to the corresponding GAAP financial measures below as required under the rules of the Securities and Exchange Commission regarding the use of non-GAAP financial measures. We define (i) EBITDA as net income before net interest expense, income taxes, depreciation, and amortization and accretion of contract rights, (ii) net cash position as cash and cash equivalents less long-term debt, and (iii) free cash flow as cash flow from operating activities less net capital expenditures.

EBITDA, net cash position and free cash flow are not recognized financial measures under GAAP, but we believe that each is useful in measuring our operating performance. We believe that the use of the non-GAAP financial measure EBITDA enhances an overall understanding of the Company’s past financial performance, and provides useful information to the investor by comparing our performance across reporting periods on a consistent basis and the use of EBITDA by other companies in the gaming equipment sector as a measure of performance. We believe that the non-GAAP measures of net cash position and free cash flow provide useful information to investors as each enhances the overall understanding of our operating performance. Investors should not consider these measures in isolation or as a substitute for net income, operating income, or any other measure for determining the Company’s operating performance that is calculated in accordance with GAAP. In addition, because these measures are not calculated in accordance with GAAP, they may not necessarily be comparable to similarly titled measures employed by other companies.

A reconciliation of EBITDA to the most comparable GAAP financial measure, net income, follows:

	U.S. GAAP Net Income to EBITDA Reconciliation Years Ended September 30, (In thousands)		
	2013	2012	2011
Net income	$34,934	$28,174	$5,677
Add back:			
Amortization and depreciation	34,846	38,270	40,957
Accretion of contract rights	8,470	7,700	7,211
Interest expense, net	648	(161)	498
Income tax expense (benefit)	16,833	(2,877)	702
EBITDA	$95,731	$71,106	$55,045

A reconciliation of net cash position and free cash flow follows:

	Years Ended September 30, (In thousands)		
	2013	2012	2011
Net Cash (Debt) Position			
Cash and cash equivalents	102,632	73,755	46,710
Less: Long-term debt	(29,600)	(33,300)	(37,000)
Net cash (debt) position	$73,032	$40,455	$9,710
Free Cash Flow			
Net cash provided by operating activities	76,513	74,543	68,579
Less: Net capital expenditures	(48,624)	(45,220)	(37,376)
Free cash flow	$27,889	$29,323	$31,203

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in conformity with U.S. GAAP. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the periods presented. There can be no assurance that actual results will not differ from those estimates. We believe the following represent our most critical accounting policies.

Management considers an accounting estimate to be critical if:

- It requires assumptions to be made that were uncertain at the time the estimate was made (Critical Assumption #1), and

- Changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operation or financial condition (Critical Assumption #2).

Revenue Recognition. As further discussed in Note 2. "Significant Accounting Policies" of the Notes to Consolidated Financial Statements, revenue from sales arrangements with multiple deliverables, is applied using the guidance from ASC Topic 605, “Revenue Recognition,” which establishes the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities; specifically, how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. In addition, we apply the guidance from ASU No. 2009-14, “Software (Topic 985), Certain Revenue Arrangements that Include Software Elements,” which affects vendors that sell or lease tangible products in an arrangement that contains software that is more than incidental to the tangible product as a whole and clarifying what guidance should be used in allocating and measuring revenue.

The majority of our multiple element sales contracts are for some combination of gaming equipment, player terminals, content, system software, license fees, and maintenance. ASU No. 2009-13 states that revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables meet both of the following criteria:

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The delivered items have value to the customer on a stand-alone basis. The item or items have value on a stand-alone basis if they are sold separately by any vendor or the customer could resell the delivered item(s) on a stand-alone basis. In the context of a customer's ability to resell the delivered item(s), this criterion does not require the existence of an observable market for the deliverable(s); and

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

Generally, player terminal sales include ancillary equipment, such as networking gear, bases, chairs, and occasionally signage, some of which may be necessary for the full functionality of the player terminals in a casino. This ancillary equipment comprises an install kit which is shipped simultaneously with the player terminals. Although our products are analyzed as multiple deliverable

arrangements, revenue for the player terminal and ancillary equipment is not recognized until all elements essential for the functionality of the product have been shipped or delivered. This includes game theme software and essential ancillary equipment.

ASU No 2009-13 requires that arrangement consideration be allocated, at the inception of the arrangement, to all deliverables based on their relative selling price (i.e., the relative selling price method). When applying the relative selling price method, a hierarchy is used for estimating the selling price based first on Vendor-Specific Objective Evidence (“VSOE”), then Third-Party Evidence (“TPE”) and finally management's Estimate of the Selling Price (“ESP”).

ASU No 2009-14 amends the scope of software revenue recognition to exclude all tangible products containing both software and non-software components that function together to deliver the tangible product's essential functionality. As a result, certain tangible products that were previously accounted for under the scope of software revenue recognition guidance (Accounting Standards Codification Subtopic 985-605) will no longer be accounted for as software.

Revenue related to systems arrangements that contain both software and non-software deliverables require allocation of the arrangement fee to the separate deliverables using the relative selling price method. Revenue for software deliverables is recognized under software revenue recognition guidance. Revenue resulting from the sale of non-software deliverables, such as gaming devices and other hardware, are accounted for based on other applicable revenue recognition guidance as the devices are tangible products containing both software and non-software components that function together to deliver the product's essential functionality.

In allocating the arrangement fees to separate deliverables, we evaluate whether we have VSOE of selling price, TPE or ESP for gaming devices, maintenance and product support fees and other revenue sources. We generally use ESP to determine the selling price used in the allocation of separate deliverables, as VSOE and TPE are not available. We determine the ESP on separate deliverables by estimating a margin typically received on such items and applying that margin to the product cost incurred.

Assumptions/Approach Used: The determination of estimated selling prices is a subjective measure, where we have made determinations about our ability to price certain aspects of transactions. Revenue for multiple deliverable arrangements is not recognized until all elements essential for the functionality of the product have been shipped or delivered. If elements that are not essential to the functionality of the product are shipped later, these items would be classified as deferred revenue until shipped or delivered.

Effect if Different Assumptions Used: When we have determined that an estimated selling price can be determined for all elements of an arrangement, then the estimated selling prices are allocated to all elements of the arrangement, including the value of products and services delivered or performed, as well as all hardware and software that is undelivered. Assuming all elements essential for the functionality of the product have been delivered, the allocated value of all of the delivered elements are recognized as revenue, while the allocated value of all undelivered unessential elements is deferred until such items are delivered.

Share-Based Compensation Expense. We recognize compensation expense for all share-based payments in accordance with ASC Topic 718, “Compensation-Stock Compensation” and ASC Subtopic 505-50, “Equity-Based Payments to Non-Employees.” Under the fair value recognition provisions of ASC Topic 718 and Subtopic 505-50, we recognize share-based compensation net of an estimated forfeiture rate, and only recognize compensation cost for those shares expected to vest on a straight-line basis over the service period of the award.

Assumptions/Approach Used: Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of highly subjective assumptions, including the expected life of the

share-based payment awards, and stock price volatility. Management determined that volatility is based on historical volatility trends. In addition, we are required to estimate the expected forfeiture rate, and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be significantly different from what we have recorded in the current period.

Effect if Different Assumptions Used: The assumptions used in calculating the fair value of share-based payment awards, along with the forfeiture rate estimation, represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Property and Equipment and Leased Gaming Equipment. Property and equipment and leased gaming equipment is stated at cost. The cost of property and equipment and leased gaming equipment is depreciated over their estimated useful lives, generally using the straight-line method for financial reporting, and regulatory acceptable methods for tax reporting purposes. Player terminals and related components and equipment are included in our rental pool. The rental pool can be further delineated as "rental pool – deployed," which consists of assets deployed at customer sites under participation agreements, and "rental pool – undeployed,"

which consists of assets with the Company that are available for customer use. Rental pool – undeployed consists of both new units awaiting deployment to a customer site and previously deployed units currently warehoused with the Company to be refurbished awaiting re-deployment. Routine maintenance of property and equipment and leased gaming equipment is expensed in the period incurred, while major component upgrades are capitalized and depreciated over the estimated useful life (Critical Assumption #1) of the component. Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in our results of operations.

Management reviews long-lived asset classes for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For impairment analysis purposes, our rental pool is viewed as a fungible pool of assets; including assets in both rental pool-deployed and rental pool-undeployed. In order to determine whether these assets are impaired, the net book value of the rental pool is compared to an estimate of future net cash flows from all existing facilities. The primary assumption used in determining future cash flows is our estimate of future revenue. In addition, we analyze the composition of our rental pool to determine the future use of older models and related components for those models. The impairment analysis for the fiscal year ended September 30, 2012 indicated that we had substantial cash flows to fully recover the carrying value of the entire rental pool. As of September 30, 2013 and 2012, rental pool assets totaled $68.3 million and $$50.8 million, respectively. (Critical Assumption #2)

Assumptions/Approach used for Critical Assumption #1: The carrying value of the asset is determined based upon management’s assumptions as to the useful life of the asset, where the assets are depreciated over the estimated life on a straight line basis, where the useful life of items in the rental pool has been determined by management to be three years.

Effect if different assumptions used for Critical Assumption #1: While we believe that the useful lives that have been determined for our fixed assets are reasonable, different assumptions could materially affect the carrying value of the assets, as well as the depreciation expense recorded in each respective period related to those assets. During the year ended September 30, 2013, a significant portion of the $34.8 million of depreciation and amortization expense is related to assets in the rental pool. If the depreciable life of assets in our rental pool were changed, we could incur a materially different amount of depreciation expense during the period. For example, during the year ended September 30, 2013, after a periodic review of the depreciable lives of our property and equipment and leased gaming equipment, management determined that a four year depreciable life on leased gaming equipment more accurately reflected the current age of leased gaming equipment on customers' floors, the current and historical replacement rate and the useful lives used for comparable assets by our competitors; accordingly, the depreciable lives of rental pool assets, both proprietary and third party machines, was increased to four years from three years, effective October 1, 2012. The effect of this change is estimated to have increased operating income by approximately $7.0 million, net income by $4.4 million and income per diluted share by $0.15 for the year ended September 30, 2013.

Assumptions/Approach used for Critical Assumption #2: Recoverability of assets to be held and used is measured through considerations of the future undiscounted cash flows expected to be generated by the assets as a group, as opposed to analysis by individual asset. We also review the future undiscounted cash flows of assets in place at specific locations for further analysis. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs of disposal. The carrying value of the asset is determined based upon management’s assumptions as to the useful life of the asset, where the assets are depreciated over the estimated life on a straight-line basis.

Effect if different assumptions used for Critical Assumption #2: Impairment testing requires judgment, including estimations of useful lives of the assets, estimated cash flows, and determinations of fair value. While we believe our

estimates of useful lives and cash flows are reasonable, different assumptions could materially affect the measurement of useful lives, recoverability and fair value. If actual cash flows fall below initial forecasts, we may need to record additional amortization and/or impairment charges. Additionally, while we believe that analysis of the recoverability of assets in our rental pool is accurately assessed from a homogenous level due to the interchangeability of player stations and parts, if these assets were to be reviewed for impairment using another approach, there could be different outcomes to any impairment analysis performed.

Development and Placement Fee Agreements. We enter into development and placement fee agreements to provide financing for new gaming facilities or for the expansion of existing facilities. In return, the facility dedicates a percentage of its floor space to exclusive placement of our player terminals, and we receive a fixed percentage of those player terminals' win per day over the term of the agreement. Certain of the agreements contain player terminal performance standards that could allow the facility to reduce a portion of our guaranteed floor space. In addition, certain development agreements allow the facilities to buy out floor space after advances that are subject to repayment have been repaid. The development agreements typically provide for a portion of the amounts retained by the gaming facility for their share of the hold to be used to repay some or all of the advances recorded as notes receivable. Placement fees and amounts advanced in excess of those to be reimbursed by the customer for real property

and land improvements are allocated to intangible assets and are generally amortized over the life of the contract, using the straight-line method of amortization (Critical Assumption #1), which is recorded as a reduction of revenue generated from the gaming facility. In the past the Company has, and in the future, the Company may, by mutual agreement, amend these contracts to reduce our floor space at the facilities. Any proceeds received for the reduction of floor space is first applied against the intangible asset for that particular development agreement, if any.

Management reviews intangible assets related to development and placement fee agreements for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable (Critical Assumption #2). For the year ended September 30, 2013, there was no impairment to the assets' carrying values.

Assumptions/Approach used for Critical Assumption #1: Placement fees and amounts advanced in excess of those to be reimbursed by the customer for real property and land improvements are allocated to intangible assets and are generally amortized over the life of the contract, using the straight-line method of amortization, which is recorded as a reduction of revenue generated from the gaming facility. We use a straight-line amortization method, as a pattern of future benefits cannot be readily determined.

Effect if Different Assumptions used for Critical Assumption #1: While we believe that the use of the straight-line method of amortization is the best way to account for the costs associated with the costs of acquiring exclusive floor space rights at our customers facilities, the use of an alternative method could have a material effect on the amount recorded as a reduction to revenue in the current reporting period.

Assumptions/Approach used for Critical Assumption #2: We estimate cash flows directly associated with the use of the intangible assets to test recoverability and remaining useful lives based upon the forecasted utilization of the asset and expected product revenues. In developing estimated cash flows, we incorporate assumptions regarding future performance, including estimations of win per day and estimated units. When the carrying amount exceeds the undiscounted cash flows expected to result from the use and eventual disposition of the asset, we then compare the carrying amount to its current fair value. We recognize an impairment loss if the carrying amount is not recoverable and exceeds its fair value.

Effect if Different Assumptions used for Critical Assumption #2: Impairment testing requires judgment, including estimations of cash flows, and determinations of fair value. While we believe our estimates of future revenues and cash flows are reasonable, different assumptions could materially affect the measurement of useful lives, recoverability and fair value. If actual cash flows fall below initial forecasts, we may need to record additional amortization and/or impairment charges.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts related to our accounts receivable and notes receivable that have been deemed to have a high risk of uncollectibility. Management reviews our accounts receivable and notes receivable on a monthly basis to determine if any receivables will potentially be uncollectible. Management analyzes historical collection trends and changes in our customer payment patterns, customer concentration, and creditworthiness when evaluating the adequacy of our allowance for doubtful accounts. In our overall allowance for doubtful accounts, we include any receivable balances where uncertainty exists as to whether the account balance has become uncollectible. Based on the information available, management believes the allowance for doubtful accounts is adequate; however, actual write-offs may vary from the recorded allowance.

Income Taxes. In accordance with ASC Topic 740, "Income Taxes", we have recorded deferred tax assets and liabilities to account for the expected future tax benefits and consequences of events that have been recognized in our financial statements and our tax returns. There are several items that result in deferred tax asset and liability impact to the balance sheet. If we conclude that it is more likely than not that all or some portion of the deferred tax assets will not

be realized under accounting standards, they are reduced by a valuation allowance to remove the benefit of recovering those deferred tax assets from our financial statements.

Additionally, in accordance with ASC Topic 740, we previously maintained a reserve for prior uncertain tax positions. However, as of September 30, 2013, the reserve related to uncertain tax positions has been eliminated as the Company has now effectively settled the prior uncertain tax position.

ASC Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In order to record any financial statement benefit, we are required to determine, based on the technical merits of the position, whether it is more likely than not (a likelihood of more than 50 percent) that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. If that step is satisfied, then we must measure the tax position to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Assumptions/Approach Used: Numerous judgments and assumptions are inherent in the determination of future taxable income and tax return filing positions that we take, including factors such as future operating conditions. Management regularly considers the likelihood of realizing the future benefits associated with our existing deductible temporary differences and carryforwards. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. As a result of this analysis, Management believes that in the U.S. jurisdiction, as of September 30, 2013, the objective and verifiable evidence of our historical pretax net income, coupled with sustained taxable income and projected future earnings outweighs the negative evidence of our previous years losses. Therefore, we determined that it is more likely than not that we will realize the benefits associated with our deferred tax assets in the U.S. jurisdiction. As a result, we have no valuation allowance against any of our U.S. deferred tax assets.

In Mexico, we continue to experience tax losses and do not foresee profitable activities in the future after selling all of our electronic gaming machines to our primary customer; therefore management determined that it is not more likely than not that the future benefit associated with all of our existing deductible temporary differences and carryforwards in Mexico will be realized. As a result, we have maintained a full valuation allowance against all of our remaining Mexican deferred tax assets.

Effect if Different Assumptions Used: Management, together with consultation from an independent public accounting firm used in tax consultation, continually evaluate tax law requirements and their effect on our current and future tax liability and our tax filing positions. The ultimate utilization of our gross deferred tax assets, primarily associated with accruals that are not currently deductible and certain credit carryforwards, is largely dependent upon our ability to generate taxable income in the future. Our liability for uncertain tax positions is dependent upon our judgment on the amount of financial statement benefit that an uncertain tax position will realize upon ultimate settlement and on the probabilities of the outcomes that could be realized upon ultimate settlement of an uncertain tax position using the facts, circumstances and information available at the reporting date to establish the appropriate amount of financial statement benefit.

We maintain a valuation allowance when management believes it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in a valuation allowance from period to period are included in the tax provision in the period of change. Management evaluates the recoverability of our deferred income tax assets by assessing the need for a valuation allowance on a quarterly basis. If we determine that it is more likely than not that our deferred tax assets will be recovered, the valuation allowance will be reduced.

Management continues to believe that it is more likely than not that the future benefit associated with all of our existing deductible temporary differences and carryforwards in the U.S. will be realized. As a result, we have no valuation allowance against any of our U.S. deferred tax assets.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the ordinary course of business, primarily associated with interest rate fluctuations.

Our Credit Agreement provides us with additional liquidity to meet our short-term financing needs, as further described in Part IV - Item 15. Note 10 to the Notes to Consolidated Financial Statements "Credit Agreement and Long-Term Debt." Pursuant to the Credit Agreement, we may currently borrow up to a total of $66.6 million, of which $29.6 million is outstanding and $37.0 million is available for future borrowings, subject to covenant restrictions, less $3.5 million outstanding on a letter of credit. As of September 30, 2013, $29.6 million was outstanding on the term loan which bore interest at 2.94%. We estimate a hypothetical increase of 100 bps in applicable interest rates would have an immaterial impact on our business.

In connection with the development agreements we enter into with some of our customers, we advance funds for the construction and development of gaming facilities, which are generally required to be repaid. As a result of our adjustable-interest-rate notes payable and fixed-interest-rate-notes receivable described in Part IV - Item 15. Note 4 to the Notes to Consolidated Financial Statements "Notes Receivable"and Part IV - Item 15. Note 10 to the Notes to

Consolidated Financial Statements "Credit Agreement and Long-Term Debt," we are subject to market risk with respect to interest rate fluctuations. Any material increase in prevailing interest rates could cause us to incur significantly higher interest expense. These factors have not increased significantly, therefore no significant changes have been made in the Company's strategies to manage any of these exposures during fiscal 2013.

In addition, we have been subject to market risks associated with foreign currency exchange rates, primarily with respect to our former operations in Mexico. In December, 2012, we sold our remaining units in Mexico to our Mexico customer, and no longer operate any units in Mexico; we may, however, be subject to certain business expenses in Mexico as our foreign entities continue to exist. We estimate that a hypothetical 10% strengthening (or weakening) of the U.S. dollar for fiscal 2013 would have had an immaterial impact on our business.

ITEM 8. Financial Statements and Supplementary Data

The financial statements and supplemental data required by this item are included in PART IV - Item 15.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Control and Procedures. As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of management's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) to ensure information required to be disclosed in our filings under the Securities Exchange Act of 1934, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms; and (ii) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives, and management is necessarily required to apply its judgment when evaluating the cost-benefit relationship of potential controls and procedures. Based upon the evaluation, the Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2013.

Management's Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of September 30, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework(1992). Based on our assessment and those criteria, our management concluded that internal control over financial reporting was effective as of September 30, 2013.

Our independent registered public accounting firm, BDO USA, LLP, has issued an attestation report dated November 14, 2013 on our internal control over financial reporting. That report is included herein.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in management's evaluation during the quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be provided in the Company's Proxy Statement for its 2014 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended September 30, 2013 (the “Proxy Statement”) and that information is incorporated herein by reference.

ITEM 11. Executive Compensation

The information required by this Item will be provided in the Proxy Statement and that information is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be provided in the Proxy Statement and that information is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions and Director Independence

The information required by this Item will be provided in the Proxy Statement and that information is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services

The information required by this Item will be provided in the Proxy Statement and that information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements

Reports of Independent Registered Public Accounting Firm	60
Consolidated Balance Sheets, as of September 30, 2013 and 2012	62
Consolidated Statements of Operations and Other Comprehensive Income, Years Ended September 30, 2013, 2012 and 2011	63
Consolidated Statements of Stockholders' Equity, Years Ended September 30, 2013, 2012 and 2011	64
Consolidated Statements of Cash Flows, Years Ended September 30, 2013, 2012 and 2011	65
Notes to Consolidated Financial Statements	66

(2) Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts	90

(3) The Exhibits listed in the Exhibit Index, which appears immediately following the signature page and are incorporated herein by reference, and are filed as part of this Annual Report on Form 10-K

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Multimedia Games Holding Company, Inc.
Austin, Texas

We have audited the accompanying consolidated balance sheets of Multimedia Games Holding Company, Inc., or the Company, as of September 30, 2013 and 2012 and the related consolidated statements of operations and other comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2013. We have also audited the schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements and schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Multimedia Games Holding Company, Inc. at September 30, 2013 and 2012, and the results of its operations and its cash flows for the each of the three years in the period ended September 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Multimedia Games Holding Company, Inc.'s internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control – Integrated Framework(1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) and our report dated November 14, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
BDO USA, LLP
Austin, Texas
November 14, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Multimedia Games Holding Company, Inc.
Austin, Texas

We have audited Multimedia Games Holding Company, Inc., or the Company's, internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control – Integrated Framework(1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Multimedia Games Holding Company, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Multimedia Games, Inc., or the Company, as of September 30, 2013 and 2012 and the related consolidated statements of operations and other comprehensive income, stockholders' equity, and cash flows and the schedule listed in the accompanying index for each of the three years in the period ended September 30, 2013, and our report dated November 14, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
BDO USA, LLP
Austin, Texas

November 14, 2013

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
As of September 30, 2013 and 2012
(In thousands, except shares)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$102,632	$73,755
Accounts receivable, net of allowance for doubtful accounts of $342 and $266, respectively	26,566	17,503
Inventory	12,429	7,083
Current portion of notes receivable, net	2,093	8,024
Federal and state income tax receivable	2,855	244
Deferred tax asset	7,818	8,248
Prepaid expenses and other	2,423	6,593
Total current assets	156,816	121,450
Property and equipment and leased gaming equipment, net	77,458	57,924
Notes receivable - non-current	4,841	733
Intangible assets, net	34,723	37,664
Value added tax receivable, net of allowance of $707 and $722, respectively	2,862	3,511
Deferred tax asset - non current	2,690	2,418
Other assets	2,135	2,275
Total assets	$281,525	$225,975
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$3,700	$3,700
Accounts payable and accrued liabilities	29,129	30,192
Deferred revenue	520	483
Total current liabilities	33,349	34,375
Long-term debt, less current portion	25,900	29,600
Long-term deferred tax liability	12,824	6,320
Other long-term liabilities	511	660
Total liabilities	72,584	70,955
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock: Series A, $0.01 par value, 1,800,000 shares authorized, no shares issued and outstanding	—	—
Series B, $0.01 par value, 200,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value, 75,000,000 shares authorized, 37,802,950 and 36,296,027 shares issued, and 29,386,870 and 28,183,549 shares outstanding, respectively	378	363
Additional paid-in capital	131,232	107,751
Treasury stock, 8,416,080 and 8,112,478 common shares at cost, respectively	(66,886)	(62,048)
Retained earnings	144,217	109,283
Accumulated other comprehensive loss, net	—	(329)
Total stockholders' equity	208,941	155,020
Total liabilities and stockholders' equity	$281,525	$225,975

The accompanying notes are an integral part of the consolidated financial statements.

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND OTHER COMPREHENSIVE INCOME
For the Years Ended September 30, 2013, 2012 and 2011
(In thousands, except per share data)

	2013	2012	2011
REVENUES:			
Gaming operations	$132,640	$112,010	$95,476
Gaming equipment and system sales	54,539	42,793	30,909
Other	2,187	1,373	1,470
Total revenues	189,366	156,176	127,855
OPERATING COSTS AND EXPENSES:			
Cost of gaming operations revenue[1]	13,803	12,547	12,478
Cost of equipment and system sales	23,143	18,548	14,623
Selling, general and administrative expenses	48,350	46,451	38,700
Write-off, reserve, impairment & settlement charges	—	1,187	2,013
Research and development	16,842	15,082	12,930
Amortization and depreciation	34,846	38,270	40,957
Total operating costs and expenses	136,984	132,085	121,701
Operating income	52,382	24,091	6,154
OTHER INCOME (EXPENSE):			
Interest income	491	1,553	2,562
Interest expense	(1,139)	(1,392)	(3,060)
Other income	33	1,045	723
Income before income taxes	51,767	25,297	6,379
Income tax (expense) benefit	(16,833)	2,877	(702)
Net income	$34,934	$28,174	$5,677
Basic income per common share	$1.21	$1.01	$0.20
Diluted income per common share	$1.14	$0.96	$0.20
Other comprehensive income:			
Foreign Currency translation adjustments	329	123	188
Comprehensive income	$35,263	$28,297	$5,865
Shares used in net income per common share:			
Basic	28,929	27,807	28,106
Diluted	30,677	29,261	28,686

(1) Cost of gaming operations revenues exclude depreciation and amortization of gaming equipment, content license rights and other depreciable assets, which are included separately in the amortization and depreciation line item.

The accompanying notes are an integral part of the consolidated financial statements.

MULTIMEDIA GAMES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended September 30, 2013, 2012 and 2011
(In thousands, except share amounts)

	Common Stock			Treasury Stock			Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares	Amount	Additional Paid -in Capital	Number of Shares	Amount	Retained Earnings		
Balance, September 30, 2010	33,521,591	$335	$89,598	5,895,617	$(50,128)	$75,432	$ (640)	$ 114,597
Exercise of stock options	1,036,440	11	3,933	—	—	—	—	3,944
Purchase of treasury stock	—	—	—	1,824,040	(10,036)	—	—	(10,036)
Share-based compensation expense	—	—	1,532	—	—	—	—	1,532
Net income	—	—	—	—	—	5,677	—	5,677
Foreign currency translation adjustment	—	—	—	—	—	—	188	188
Balance, September 30, 2011	34,558,031	346	95,063	7,719,657	(60,164)	81,109	(452)	115,902
Exercise of stock options	1,737,996	17	8,715	—	—	—	—	8,732
Purchase of treasury stock	—	—	—	392,821	(1,884)	—	—	(1,884)
Long-term incentive program	—	—	651	—	—	—	—	651
Tax benefit of stock options exercised	—	—	555	—	—	—	—	555
Share-based compensation expense	—	—	2,767	—	—	—	—	2,767
Net income	—	—	—	—	—	28,174	—	28,174
Foreign currency translation adjustment	—	—	—	—	—	—	123	123
Balance, September 30, 2012	36,296,027	363	107,751	8,112,478	(62,048)	109,283	(329)	155,020
Exercise of stock options and release of awards	1,506,923	15	9,161	—	—	—	—	9,176
Purchase of treasury stock	—	—	—	303,602	(4,838)	—	—	(4,838)
Long-term incentive program	—	—	478	—	—	—	—	478
Tax benefit of stock options exercised	—	—	10,394	—	—	—	—	10,394
Share-based compensation expense	—	—	3,448	—	—	—	—	3,448
Net income	—	—	—	—	—	34,934	—	34,934
Foreign currency translation adjustment	—	—	—	—	—	—	329	329
Balance, September 30, 2013	37,802,950	$378	$131,232	8,416,080	$(66,886)	$144,217	$ —	$ 208,941

The accompanying notes are an integral part of the consolidated financial statements.

64

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2013, 2012 and 2011
(In thousands)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$34,934	$28,174	$5,677
Adjustments to reconcile net income to cash provided by operating activities:			
Amortization and depreciation	34,846	38,270	40,957
Accretion of contract rights	8,468	7,700	7,210
Share-based compensation	3,926	3,418	1,532
Other non-cash items	1,501	1,405	1,404
Deferred income taxes	6,662	(4,346)	—
Interest income from imputed interest	(376)	(1,292)	(2,333)
Changes in operating assets and liabilities			
Total accounts and notes receivable	(8,463)	(59)	(3,137)
Federal and state income tax receivable	6,688	(102)	19,516
Inventory	(5,386)	(86)	(4,056)
Current liabilities	126	4,544	4,612
Other current and long-term assets and long-term liabilities	3,983	(2,529)	(2,803)
Tax benefit from exercise of stock options	(10,396)	(554)	—
NET CASH PROVIDED BY OPERATING ACTIVITIES	76,513	74,543	68,579
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment and leased gaming equipment	(48,624)	(45,220)	(37,376)
Acquisition of intangible assets	(9,260)	(6,102)	(4,850)
Advances under development and placement fee agreements	(8,535)	(15,575)	(2,951)
Repayments under development agreements	7,749	15,846	14,983
NET CASH USED IN INVESTING ACTIVITIES	(58,670)	(51,051)	(30,194)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	9,176	8,733	3,944
Tax benefit from exercise of stock options	10,396	554	—
Principal payments of long term debt	(3,700)	(3,700)	(7,625)
Proceeds from revolving lines of credit	—	—	6,875
Payments on revolving lines of credit	—	—	(6,875)
Proceeds from capital leases	—	894	—
Principal payments of capital leases	—	(894)	—
Purchase of treasury stock	(4,838)	(1,884)	(10,036)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	11,034	3,703	(13,717)
EFFECT OF EXCHANGE RATES ON CASH	—	(150)	250
Net increase in cash and cash equivalents	28,877	27,045	24,918
Cash and cash equivalents, beginning of period	73,755	46,710	21,792
Cash and cash equivalents, end of period	$102,632	$73,755	$46,710
SUPPLEMENTAL CASH FLOW DATA:			
Interest paid	$(1,083)	$(1,296)	$(2,877)

Income tax (paid) refunded, net	$(4,116)	$561	$18,796
NON-CASH TRANSACTIONS:			
Change in contract rights resulting from imputed interest on development agreement notes receivable	$375	$(22)	$64
Transfer of leased gaming equipment to inventory	$3,570	$5,085	$1,164

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF COMPANY INFORMATION

Business
Multimedia Games Holding Company, Inc. and its subsidiaries (the “Company,” “we,” “us,” “our” or "Multimedia Games") design, manufacture and supply innovative standalone and networked gaming systems to commercial and Native American casino operators in North America, domestic and selected international lottery operators, and commercial bingo gaming facility operators.

The Company's standalone gaming machines are primarily sold and placed in Class III settings while its central determinant and server-based centrally-linked products and systems are primarily sold and placed in Class II, video lottery terminal and electronic bingo settings. The Company uses the term Class III to refer to traditional slot machines that are placed or sold in commercial jurisdictions as well as compact games located in various tribal gaming jurisdictions. The Class II market is generally understood as the game of chance commonly known as bingo (whether or not electronic, computer, or other technological aids are used in connection therewith) associated with Native American gaming in the United States.

The Company's product line and markets include Class II and Class III gaming facilities operated by commercial and Native American casinos and the Company derives the majority of its gaming revenues from participation, development, and placement fee agreements, all of which operate on a participation, or revenue share, basis or on a fixed daily fee. The Company enters into development and placement fee agreements to provide financing for new gaming facilities or for the expansion of existing facilities in exchange for a certain amount of floor space for a contracted period of time. All or a portion of the funds provided under development agreements are reimbursed to the Company, while funding under placement fee agreements is not reimbursed.

The Company also offers and generates revenue from the sale of gaming units and systems that feature proprietary game content and game themes licensed from others. The Company intends to increase these for-sale revenues by expanding into additional gaming jurisdictions and into other segments of the gaming market. The Company also generates revenues by providing the central determinant system operated by the New York State Division of the Lottery for the video lottery terminals installed at racetracks in the State of New York.

Basis of Presentation

The consolidated financial statements include the accounts of Multimedia Games Holding Company, Inc. and its wholly-owned subsidiaries, including Multimedia Games, Inc., MGAM Technologies, LLC, MegaBingo International, LLC, Multimedia Games de Mexico, S. de R.L. de C.V., Multimedia Games de Mexico 1, S. de R.L. de C.V., and Servicios de Wild Basin S. de R.L. de C.V. Intercompany balances and transactions have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates
The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Examples include share-based compensation, provisions for doubtful accounts, recoverability of notes, value added tax and other receivable balances, provision for

slow-moving or obsolete inventory, estimated useful lives and impairment of property and equipment and intangible assets, valuation of deferred income taxes, and the provision for and disclosure of litigation and loss contingencies. Actual results may differ materially from these estimates in the future.

Reclassifications

Reclassifications were made to the prior-period financial statements to conform to the current period presentation. A portion of "cost of gaming operations revenue" was reclassified from "selling, general and administrative expenses" and "research and development" on the consolidated statements of operations and other comprehensive income. On the consolidated statements of cash flows, "transfer of leased gaming equipment to inventory" was combined with "acquisition of property and equipment and leased gaming equipment" and "tax benefit from exercise of stock options" has been separately stated. These reclassifications did not have an impact on the Company’s previously reported results of operations or earnings per share amounts. Additionally, these reclassifications did not impact compliance with any applicable debt covenants in the Company’s Credit Agreement.

Revenue Recognition

The Company derives revenue from the following sources:

n	Gaming Operations	Participation, development, placement fee, or lease revenue generated from the Company's commercial products, Class III products, Native American Class II products, and other bingo products, lottery systems, and Class III back office systems
n	Gaming Equipment and Systems Sales	Direct sales of player terminals, licenses, back office systems and other related equipment
n	Other	Maintenance and service arrangements and other

In accordance with the provision of ASC Topic 605, "Revenue Recognition," the Company recognizes revenue when all of the following have been satisfied:

Persuasive evidence of an arrangement exists;
Delivery has occurred;
Price to the buyer is fixed or determinable; and
Collectibility is probable.

See below in "Gaming Equipment and Systems Sales" and in Part II, Item 7, "Management's Discussion and Analysis - Critical Accounting Policies and Estimates" for more information on how the Company recognizes revenue in multiple deliverable arrangements.

Gaming Operations
The majority of the Company's gaming revenue is generated by its gaming operations under development, placement, and participation arrangements where the Company provides its customers with player terminals, player terminal-content licenses and back-office equipment, collectively referred to herein as leased gaming equipment. Under these arrangements, the Company retains ownership of the leased gaming equipment installed at customer facilities, and the Company receives revenue based on a percentage of the net win per day generated by the leased gaming equipment or a fixed daily fee based on the number of player terminals installed at the facility. Revenue from lease participation or daily fee arrangements are considered both realizable and earned at the end of each gaming day.

Gaming revenue generated by player terminals deployed at sites under development or placement fee agreements is reduced by the accretion of contract rights acquired as part of those agreements. Contract rights are amounts allocated to intangible assets for dedicated floor space resulting from such agreements, described under "Development and Placement Fee Agreements." The related amortization expense, or accretion of contract rights, is netted against its respective revenue category in the consolidated statements of operations and other comprehensive income.

The Company also generates gaming revenues from back-office fees with certain customers. Back-office fees cover the service and maintenance costs for back-office servers installed in each gaming facility to run its gaming equipment, as well as the cost of related software updates. Back-office fees are considered both realizable and earned at the end of each gaming day.

Gaming Equipment and System Sales
The Company sells gaming equipment and gaming systems directly to its customers under independent sales contracts through normal credit terms or may grant extended credit terms under contracts secured by the related equipment, with interest recognized at market rates.

For sales arrangements with multiple deliverables, the Company applies the guidance from ASU No. 2009-13, "Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements." ASU No. 2009-13 establishes the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating

activities; specifically, how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. In addition, the Company applies the guidance from ASU No. 2009-14, "Software (Topic 985), Certain Revenue Arrangements that Include Software Elements," which affects vendors that sell or lease tangible products in an arrangement that contains software that is more than incidental to the tangible product as a whole and clarifies what guidance should be used in allocating and measuring revenue.

The majority of the Company's multiple element sales contracts are for some combination of gaming equipment, player terminals, content, system software, license fees, ancillary equipment and maintenance. ASU No. 2009-13 states that revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables meet both of the following criteria:

- The delivered items have value to the customer on a stand-alone basis. The item or items have value on a stand-alone basis if they are sold separately by any vendor or the customer could resell the delivered item(s) on a stand-alone basis. In the context of a customer's ability to resell the delivered item(s), this criterion does not require the existence of an observable market for the deliverable(s); and

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

ASU No 2009-13 requires that arrangement consideration be allocated, at the inception of the arrangement, to all deliverables based on their relative selling price (i.e., the relative selling price method). When applying the relative selling price method, a hierarchy is used for estimating the selling price based first on Vendor-Specific Objective Evidence, or VSOE, then Third-Party Evidence, or TPE, and finally management's Estimate of the Selling Price, or ESP.

Revenue related to systems arrangements that contain both software and non-software deliverables requires allocation of the arrangement fee to the separate deliverables using the relative selling price method. Revenue for software deliverables is recognized under software revenue recognition guidance. Revenue resulting from the sale of non-software deliverables, such as gaming devices and other hardware, are accounted for based on other applicable revenue recognition guidance as the devices are tangible products containing both software and non-software components that function together to deliver the product's essential functionality.

In allocating the arrangement fees to separate deliverables, the Company evaluates whether it has VSOE of selling price, TPE or ESP for gaming devices, maintenance and product support fees and other revenue sources. The Company generally uses ESP to determine the selling price used in the allocation of separate deliverables, as VSOE and TPE are generally not available. The Company determines the ESP on separate deliverables by estimating a margin typically received on such items and applying that margin to the product cost incurred.

Generally, player terminal sales include ancillary equipment, such as networking gear, bases, chairs, and occasionally signage, some of which may be necessary for the full functionality of the player terminals in a casino. This ancillary equipment comprises an install kit which is shipped simultaneously with the player terminals. Although our products are analyzed as multiple deliverable arrangements, revenue for the player terminal and ancillary equipment is not recognized until all elements essential for the functionality of the product have been shipped or delivered. This includes game theme software and essential ancillary equipment. If elements that are not essential to the functionality of the player terminals are shipped after the unit, such as signage, chairs, or bases, these items would be classified as deferred revenue until shipped or delivered.

Cash and Cash Equivalents

The Company considers all highly liquid investments (i.e., investments which, when purchased, have original maturities of three months or less) to be cash equivalents.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts related to its accounts receivable and notes receivable that have been deemed to have a high risk of uncollectibility. Management reviews its accounts and notes receivable on a quarterly basis to determine if any receivables will potentially be uncollectible. Management analyzes historical collection trends and changes in its customer payment patterns, customer concentration, and creditworthiness when evaluating the adequacy of its allowance for doubtful accounts. In its overall allowance for doubtful accounts, the Company includes any receivable balances where uncertainty exists as to whether the account balance has become uncollectible. Based on the information available, management believes the allowance for doubtful accounts is

adequate; however, actual write-offs may exceed the recorded allowance.

Inventory

The Company's inventory consists primarily of completed player terminals, related component parts, and back-office computer equipment. Inventories are stated at average costs, which approximate the lower of cost (first in, first out) or market.

Property and Equipment and Leased Gaming Equipment

Property and equipment and leased gaming equipment are stated at cost. The cost of property and equipment and leased gaming equipment is depreciated over their estimated useful lives, generally using the straight-line method for financial reporting, and regulatory acceptable methods for income tax reporting purposes. Player terminals and related components and equipment are included in the Company's rental pool. The rental pool can be further delineated as "rental pool – deployed," which consists of assets deployed at customer sites under participation arrangements, and "rental pool – undeployed," which consists of assets with the Company that are available for customer use. Rental pool – undeployed consists of both new units awaiting deployment to a customer site and previously deployed units currently back with the Company to be refurbished awaiting re-deployment. Routine

maintenance of property and equipment and leased gaming equipment is expensed in the period incurred, while major component upgrades are capitalized and depreciated over the estimated remaining useful life of the component. Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in the Company's results of operations.

Management reviews long-lived asset classes for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its fair value, which considers the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs of disposal. During the years ended September 30, 2013, 2012 and 2011 in the ordinary course of business or upon reviewing the nature of the assets, the Company charged operations by recording reserves or writing off $554,000, $669,000 and $1.3 million, respectively, of property and equipment and leased gaming equipment.

Development and Placement Fee Agreements

The Company enters into development and placement fee agreements to provide financing for new gaming facilities or for the expansion of existing facilities. All or a portion of the funds provided under development agreements are reimbursed to the Company, while funds provided under placement fee agreements are not reimbursed. In return, the facility dedicates a percentage of its floor space to placement of the Company's player terminals, and the Company receives a fixed percentage of those player terminals' hold per day over the term of the agreement which is generally for 12 to 83 months. Certain of the agreements contain player terminal performance standards that could allow the facility to reduce a portion of the Company's guaranteed floor space. In addition, certain development agreements allow the facilities to buy out floor space after advances that are subject to repayment have been repaid. The agreements typically provide for a portion of the amounts retained by the gaming facility for their share of the operating profits of the facility to be used to repay some or all of the advances recorded as notes receivable. Placement fees and amounts advanced in excess of those to be reimbursed by the customer for real property and land improvements are allocated to intangible assets and are generally amortized over the term of the contract, which is recorded as a reduction of revenue generated from the gaming facility. In the past the Company has, and in the future, the Company may, by mutual agreement, amend these contracts to reduce its floor space at the facilities. Any proceeds received for the reduction of floor space is first applied against the intangible asset recovered for that particular development or placement fee agreement, if any, and the remaining net book value of the intangible asset is prospectively amortized on a straight-line method over the remaining estimated useful life.

Other Assets

Other assets consist of restricted cash, long-term prepaids, and refundable deposits. At September 30, 2013 and 2012, the restricted cash balances were $511,000 and $618,000, respectively, representing the fair value of investments held by the Company's prize fulfillment firm related to outstanding MegaBingo® jackpot prizes.

Deferred Revenue

Deferred revenue represents amounts from the sale of gaming equipment and systems that have been billed, or for which notes receivable have been executed, but which transaction has not met the Company's revenue recognition criteria. The cost of the related gaming equipment and systems has been offset against deferred revenue. Amounts are classified between current and long-term liabilities, based upon the expected period in which the revenue will be recognized.

Other Long-Term Liabilities

Other long-term liabilities include investments held at fair value by the Company's prize-fulfillment firm related to outstanding MegaBingo jackpot-prize-winner annuities and the long-term portion of deferred revenue. The long-term

liabilities were $511,000 and $660,000as of September 30, 2013 and 2012, respectively, the majority of which is related to the prize fulfillment annuities.

Other Income and Expense

Other income primarily resulted from a gain on the exchange of used equipment with our third party equipment suppliers, as well as net gains incurred on foreign currency transactions primarily related to the Company's former Mexico operations (see also, Note 11, "Termination of Mexico Operations"). For the years ended September 30, 2013, 2012 and 2011 other income was $33,000, $1.0 million and $723,000, respectively. The decrease in the period relates to the gain on the exchange of used equipment with our third party equipment suppliers, recorded in the prior year period.

Research and Development Costs

The Company conducts research and development activities primarily to develop new gaming systems, gaming engines, casino data management systems, casino central monitoring systems, video lottery outcome determination systems, gaming platforms, and gaming content and to add enhancements to our existing product lines. The Company believes its ability to deliver differentiated, appealing products and services to the marketplace is based in our research and development investments, and expects to continue to make such investments in the future. These research and development costs consist primarily of salaries and benefits, consulting fees, game lab testing fees, and an allocation of corporate facilities costs related to these activities. Once the technological feasibility of a project has been established, it is transferred from research to development, and capitalization of development costs begins until the product is available for general release.

Research and development costs for years ended September 30, 2013, 2012 and 2011 were $16.8 million,$15.1 million and $12.9 million, respectively.

Employee Benefit Plans

The Company has established an employee savings plan pursuant to Section 401(k) of the Internal Revenue Code. The plan provides for the employees to make tax-deferred deposits into the plan up to the maximum of $17,500, plus a $5,500 catch-up contribution for employees age 50 or above for 2013. The Company has historically matched employees' contributions to the 401(k) Plan equal to 50% of the first 4% of compensation contributed by employees to the 401(k) Plan. Such Company contributions amounted to $516,000, $425,000, and $357,000 for the years ended September 30, 2013, 2012, and 2011, respectively.

Fair Value Measurements

The Company applies the provisions of FASB Topic 820, "Fair Value Measurements"(Topic 820) to its financial assets and liabilities. Fair value is defined as a market-based measurement intended to estimate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. Topic 820 also established a fair value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. These inputs are categorized as follows:

- Level 1 - quoted prices in an active market for identical assets or liabilities;
- Level 2 - quoted prices in an active market for similar assets or liabilities, inputs other than quoted prices that are observable for similar assets or liabilities, inputs derived principally from or corroborated by observable market data by correlation or other means; and
- Level 3 - valuation methodology with unobservable inputs that are significant to the fair value measurement.

The following summarizes the valuation of certain of the Company's financial assets and liabilities as of September 30, 2013 and 2012, based on the fair value hierarchy:

	Fair Value Measurements using			
	Level 1	Level 2	Level 3	Total
September 30, 2013				
Assets:				
Cash Equivalents:				
Money market funds	$84,049	$—	$—	$84,049
Total	$84,049	$—	$—	$84,049
Liabilities:				
Long-term debt	$—	$29,600	$—	$29,600
Total	$—	$29,600	$—	$29,600
September 30, 2012				
Assets:				
Cash Equivalents:				
Money market funds	$41,937	$—	$—	$41,937
Total	$41,937	$—	$—	$41,937
Liabilities:				
Long-term debt	$—	$33,300	$—	$33,300
Total	$—	$33,300	$—	$33,300

The carrying value of financial instruments reported in the accompanying consolidated balance sheets for cash, accounts receivable, notes receivable, accounts payable, and accrued expenses payable and other liabilities, approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The carrying value of the Company's debt is consistent with fair value due to the variable interest rates in place.

Segment and Related Information

Although the Company's chief operating decision maker analyzes the Company's product lines and geographic areas for purposes of revenue, these product lines and geographic areas are managed and operated as one business segment, and meet the criteria for aggregation as permitted in ASC 280-10-50, "Operating Segments". The Company's chief operating decision maker reviews operating results in the aggregate for purposes of making decisions about resources to be allocated and for assessing performance and, outside of revenue, other discrete financial information is not available by product line or geographic area. ASC 280-10-50-11, “Aggregation Criteria,” allows for the aggregation of operating segments if the segments have similar economic characteristics and if the segments are similar in each of the following areas:

1. The nature of the products and services
2. The nature of the production processes
3. The type or class of customer for their products and services
4. The methods used to distribute their products or provide their services
5. The nature of the regulatory environment, if applicable

The Company is engaged in the business of designing, manufacturing, and distributing gaming machines, video lottery terminals, and associated systems and equipment, as well as the maintenance of these machines and equipment. The Company also supplies the central determinant system for the video lottery terminals installed at racetracks in the State of New York. The Company's production process is essentially the same for the entire Company and is performed via outsourced manufacturing partners, as well as in-house manufacturing performed primarily at its warehouse and assembly facility in Austin, Texas. The Company's customers consist of entities in the

business of operating gaming, bingo or lottery facilities, and include Native American tribes and commercial entities licensed to conduct such business in their jurisdictions. The distribution of the Company's products is consistent across the entire Company and is generally performed by third-party transportation companies. The regulatory environment is similar in every jurisdiction in that gaming is regulated and its games must meet the regulatory requirements established. In addition, the economic characteristics of each customer arrangement are similar in that the Company obtains revenue via a revenue share arrangement or direct sale of product or service, depending on the customer’s need. These sources of revenue are consistent with respect to both product line and geographic area.

In addition, discrete financial information, such as costs and expenses, operating income, net income and EBITDA (earnings before interest expense, income taxes, depreciation, amortization, and accretion of contract rights), are not captured or analyzed by product line or geographic area. The Company's chief operating decision maker analyzes product performance based on average daily play on a game level basis, which is consistent across all product lines and geographic areas. This average daily performance data along with customer needs are the key drivers for assessing how the Company allocates resources and assesses its operating performance.

Costs of Computer Software

Software development costs have been accounted for in accordance with ASC Topic 985, “Software.” Under ASC Topic 985, capitalization of software development costs begins upon the establishment of technological feasibility and prior to the availability of the product for general release to customers. The Company capitalized software development costs of approximately $9.1 million and $5.9 million for the years ended September 30, 2013 and 2012, respectively. Software development costs primarily consist of personnel costs and gaming lab testing fees. The Company begins to amortize capitalized costs when a product is available for general release to customers. Amortization expense is determined on a product-by-product basis at a rate not less than straight-line basis over the product’s remaining estimated economic life, not to exceed five years. Amortization of software development costs is included in amortization and depreciation in the accompanying consolidated statements of operations and other comprehensive income.

Income Taxes

The Company accounts for income taxes using the asset and liability method and applies the provisions of ASC Topic 740, “Income Taxes.” Under ASC Topic 740, deferred tax liabilities or assets arise from differences between the tax basis of liabilities or assets and their basis for financial reporting, and are subject to tests of recoverability in the case of deferred tax assets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets to the extent realization is not judged to be more likely than not. Additionally, in accordance with ASC Topic 740, in order to record any financial statement benefit, the Company is required to determine, based on the technical merits of the position, whether it is more likely than not (a likelihood of more than 50 percent) that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. If that step is satisfied, then the Company must measure the tax position to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Treasury Stock

The Company utilizes the cost method when accounting for its treasury stock acquisitions and dispositions.

Stock Compensation

The Company accounts for share-based compensation under the provisions of ASC Topic 718, “Compensation – Stock Compensation.” Among other items, ASC Topic 718 requires the Company to recognize in the financial statements, the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards. To measure the fair value of stock option awards granted to employees, the Company currently utilizes the Black-Scholes-Merton option-pricing model. Expense is recognized over the required service period, which is generally the vesting period of the options.

The Black-Scholes-Merton model incorporates various assumptions, including expected volatility, expected life, and risk-free interest rates. The expected volatility is based on the historical volatility of the Company’s common stock over the most recent period commensurate with the estimated expected life of the Company’s stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur. The expected life of an award is based on

historical experience and on the terms and conditions of the stock awards granted to employees.

There were option grants to purchase 102,600, 1.1 million and 566,700 common shares during the years ended September 30, 2013, 2012 and 2011, respectively. The assumptions used for the years ended September 30, 2013, 2012, and 2011, and the resulting estimates of weighted-average fair value per share of options granted and assumptions used during these periods are as follows:

	2013	2012	2011
Weighted expected life	5 years	5 years	5 years
Risk-free interest rate	0.7%	1.0%	1.3 - 2.6%
Expected volatility	62.88%	59.91%	59.01%
Expected dividend yields	None	None	None
Weighted-average fair value of options granted during the period	$14.43	$3.55	$2.36
Expected annual forfeiture rate	5.31%	5.31%	5.31%

The Company also grants restricted stock and restricted stock units. In accordance with ASC Topic 718 the Company records stock compensation for such awards at the full value of the award at the time of issuance over the vesting period of the award. The full value of the award is equivalent to the closing stock price of the Company's stock on the date of grant.

Foreign Currency Translation

The Company accounts for currency translation in accordance with ASC Topic 830, “Foreign Currency Matters.” Balance sheet accounts are translated at the exchange rate in effect at each balance sheet date. Income statement accounts are translated at the average rate of exchange prevailing during the period. Translation adjustments resulting from this process are charged or credited to other comprehensive income, in accordance with ASC Topic 220, “Comprehensive Income.” Transactional currency gains and losses arising from transactions in currencies other than the Company’s local functional currency are included in the consolidated statements of operations and other comprehensive income in accordance with ASC Topic 830. The cumulative foreign currency translation adjustment was recognized in income during the first quarter of of the fiscal year ended September 30, 2013 upon the substantial liquidation of the Company's Mexico operations.

Recent Accounting Pronouncements

Recently issued accounting pronouncements not yet adopted

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities" ("ASU No. 2011-11") to require new disclosures about offsetting assets and liabilities which requires an entity to disclose information about financial instruments that have been offset and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Entities will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. ASU No. 2011-11 is for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company expects to adopt this guidance during its 2014 fiscal year and does not expect it will have a significant impact on its consolidated results of operations, financial condition and cash flows.

In February 2013, the FASB issued ASU No. 2013-02, “Comprehensive Income - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU No. 2013-02”) to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU No. 2013-02 is effective for annual reporting periods beginning on or after December 15, 2012. The Company expects to adopt this guidance during its 2014 fiscal year and does not expect it will have a significant impact on its consolidated results of operations, financial condition and cash flows.

In March 2013, the FASB issued ASU No. 2013-05, “Foreign Currency Matters - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity” (“ASU No. 2013-05”) which permits companies to release cumulative translation adjustments into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into earnings only if the sale or transfer results in the complete or substantially complete liquidation of the

foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. ASU No. 2013-05 is effective for annual reporting periods beginning on or after December 15, 2013. The Company expects to adopt this guidance during its 2015 fiscal year and does not expect it will have a significant impact on its consolidated results of operations, financial condition and cash flows.

In July 2013, the FASB issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists(Topic 740)” (“ASU No. 2013-11”) to provide explicit guidance and eliminate the diversity in practice on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU No. 2013-11 is effective for annual reporting periods beginning on or after December 15, 2013. The Company expects to adopt this guidance during its 2015 fiscal year and does not expect it will have a significant impact on its consolidated results of operations, financial condition and cash flows.

The Company believes there is no additional new accounting guidance adopted but not yet effective that is relevant to the readers of the Company's consolidated financial statements. However, several new Exposure Drafts and proposals are under development which, if and when enacted, may have a significant impact on the Company's consolidated financial statements.

3. INVENTORY

Inventory consisted of the following:

	September 30, 2013	September 30, 2012
	(In thousands)	
Raw materials and component parts, net of reserves of $719 and $800, respectively	$6,055	$3,653
Work in progress	3,886	1,321
Finished goods	2,488	2,109
Total Inventory	$12,429	$7,083

4. NOTES RECEIVABLE

The Company’s notes receivable consisted of the following:

	September 30, 2013	September 30, 2012
	(In thousands)	
Notes receivable from development agreements	$7,303	$8,526
Less imputed interest discount reclassed to contract rights	(369)	(370)
Notes receivable from equipment sales and other	—	601
Notes receivable, net	6,934	8,757
Less current portion	(2,093)	(8,024)
Notes receivable – non-current	$4,841	$733

Notes receivable from development agreements are generated from reimbursable amounts advanced under development agreements. The notes receivable from development agreements balance includes a $6.5 million development agreement with the Chickasaw Nation for the Winstar Casino expansion entered into on November 19, 2012. Notes receivable from equipment sales consisted of financial instruments issued by customers for the purchase of player terminals and licenses, and were fully paid as of September 30, 2013.

5. DEVELOPMENT AND PLACEMENT FEE AGREEMENTS

The Company enters into development and placement fee agreements to provide financing for new gaming facilities or for the expansion or improvement of existing facilities. All or a portion of the funds provided under development agreements are reimbursed to the Company, while funding under placement fee agreements is not reimbursed. In return for either development or placement fees, the facility dedicates a percentage of its floor space to placement of the Company's player terminals, and the Company receives a fixed percentage of those player terminals' hold per day over the term of the agreement which is generally for 12 to 83 months. Certain of the agreements contain player terminal performance standards that could allow the facility to reduce a portion of the Company's guaranteed floor space. In addition, certain development agreements allow the facilities to buy out floor space after advances that are

subject to repayment have been repaid. The agreements typically provide for a portion of the amounts retained by the gaming facility for their share of the operating profits of the facility to be used to repay some or all of the advances recorded as notes receivable. Placement fees and amounts advanced in excess of those to be reimbursed by the customer for real property and land improvements are allocated to intangible assets and are generally amortized over the term of the contract, which is recorded as a reduction of revenue generated from the gaming facility. In the past the Company has, and in the future, the Company may, by mutual agreement, amend these contracts to reduce its floor space at the facilities. Any proceeds received for the reduction of floor space is first applied against the intangible asset recovered for that particular development or placement fee

agreement, if any, and the remaining net book value of the intangible asset is prospectively amortized on a straight-line method over the remaining estimated useful life.

On January 18, 2012, the Company announced that it had extended 1,709 unit placements, or 85% of the 2,009 units then- installed on a revenue sharing basis, at the WinStar World Casino and Riverwind Casino operated by the Chickasaw Nation in Oklahoma, for an additional 3.5 years beyond the original scheduled termination of the original unit placement agreements, which was to occur during the second half of fiscal 2013. In consideration of the unit placement extensions, the Company paid unit placement fees of $13.2 million to the Chickasaw Nation. The Company also agreed to reduce its revenue share percentage on approximately 1,000 units at the WinStar World Casino with two pricing adjustments on July 16, 2013 and August 1, 2014, bringing the revenue share percentage on these units in line with the Company's other units deployed within the Chickasaw Nation's gaming facilities.

On November 19, 2012, the Company entered into a new development agreement with the Chickasaw Nation to assist with the expansion of the Winstar Casino. As part of this agreement, the Company received the right to 150 unit placements for a period of 68 months in exchange for a payment of $6.5 million. The payment was made in two equal installments in November 2012 and January 2013 and is expected to be reimbursed over the term of the agreement.

On March 7, 2013, the Company paid an approximately $2.0 million placement fee to the Chickasaw Nation to extend the placement of 201 units in six casino locations across Oklahoma for an additional term of 50 months.

Management reviews intangible assets related to development and placement fee agreements for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no events or changes in circumstances during the period ended September 30, 2013, which required an impairment charge to the carrying value of intangible assets recorded in connection with development and placement fee agreements.

The following net amounts related to advances made under development and placement fee agreements and were recorded in the following balance sheet captions:

	September 30, 2013	September 30, 2012
Included in:	(In thousands)	
Notes receivable, net	$6,934	$8,156
Intangible assets – contract rights, net of accumulated amortization	$24,466	$30,551

6. PROPERTY AND EQUIPMENT AND LEASED GAMING EQUIPMENT

The Company’s property and equipment and leased gaming equipment consisted of the following:

	September 30, 2013			September 30, 2012		
	Cost	Accum. Depr.	Net Book Value	Cost	Accum. Depr.	Net Book Value
	(In thousands)					
Rental pool – deployed	$178,490	$(114,461)	$64,029	$169,262	$(122,439)	$46,823
Rental pool – undeployed[1)]	18,642	(14,335)	4,307	42,320	(38,303)	4,017
Machinery and equipment	5,609	(1,876)	3,733	11,005	(7,864)	3,141
Computer software	5,874	(3,522)	2,352	6,712	(5,145)	1,567
Vehicles	2,914	(1,595)	1,319	2,640	(1,510)	1,130
Other	4,778	(3,060)	1,718	3,832	(2,586)	1,246

Total property and equipment and leased gaming equipment	$216,307	$(138,849)	$77,458	$235,771	$(177,847)	$57,924

(1) Gaming equipment and third-party gaming content licenses begin depreciating when they are available for customer use. Property and equipment and leased gaming equipment is depreciated as follows: Rental pool – deployed and undeployed, 2 to 4 years; Machinery and equipment, 5 to 7 years; Computer software, 3 to 5 years; Vehicles, 3 to 10 years; and Other, 3 to 7 years.

The Company recorded depreciation and amortization expense related to property and equipment and leased gaming equipment of $28.8 million, $33.7 million and $37.3 million for the years ended September 30, 2013, 2012 and 2011, respectively.

The Company periodically reviews the depreciable lives of its property and equipment and leased gaming equipment. During the first quarter 2013, the Company conducted such a review and analyzed the current age of leased gaming equipment on customers' floors, the current and historical replacement rate and the useful lives used for comparable assets by its competitors. Based on this review, the Company determined that two events occurred during the beginning of fiscal 2013 which prompted a change; first, the Company transitioned from a distributor to a manufacturer allowing it to better control the life cycles of its products, and, second, the beginning of fiscal year 2013 marked the three year anniversary of the deployment of the Company's proprietary wide-body cabinet. Therefore, the Company determined that a four year depreciable life on leased gaming equipment more accurately reflected the current age of leased gaming equipment on customer's floors, the current and historical replacement rate, and the useful lives used for comparable assets by its competitors. Accordingly, the Company increased the depreciable lives of leased gaming equipment, both proprietary and third party machines, to four years from three years, effective October 1, 2012. The effect of this change increased operating income by approximately $7.0 million and net income by $4.7 million, or $0.15 per diluted share for the year ended September 30, 2013.

In accordance with ASC Topic 360, “Property, Plant, and Equipment,” the Company (i) recognizes an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows; and (ii) measures an impairment loss as the difference between the carrying amount and fair value of the asset. During the year ended September 30, 2013, the Company did not experience a triggering event that would have caused an impairment analysis assessment.

During 2013, the Company sold $3.6 million of net book value related to the Company's proprietary units on trial or revenue share in our installed base. The majority of these sales were trial units that converted to a sale. In addition the Company disposed of, or wrote off $554,000 of net book value related to third-party gaming content licenses, installation costs, and other equipment.

During 2012, the Company sold $5.1 million of net book value related to the Company's proprietary units on trial or revenue share in our installed base. These included trial units that converted to a sale. In addition, the Company disposed of or wrote off $669,000 of net book value related to third-party gaming content licenses, installation costs, and other equipment.

During 2011, the Company sold $1.9 million of net book value related to the Company's proprietary units on trial or revenue share in our installed base. These included trial units that converted to a sale. In addition, the Company disposed of or wrote off $1.3 million of net book value related to third-party gaming content licenses, installation costs, and other equipment.

Leased gaming equipment consists of rental pool assets that are either placed under participation arrangements at customer facilities (rental pool – deployed) or warehoused by the Company for future deployment (rental pool – undeployed).

7. INTANGIBLE ASSETS

The Company’s intangible assets consisted of the following:

	September 30, 2013	September 30, 2012	Estimated Useful Lives
	(In thousands)		
	Cost	Cost	

		Accum. Amort.	Net Book Value		Accum. Amort.	Net Book Value	
Contract rights under development and placement fee agreements	$61,079	$(36,613)	$24,466	$58,694	$(28,143)	$30,551	1-7 years
Internally-developed gaming software	25,116	(15,270)	9,846	23,996	(17,423)	6,573	1-5 years
Patents and trademarks	5,972	(5,561)	411	5,875	(5,335)	540	1-5 years
Total intangible assets, net	$92,167	$(57,444)	$34,723	$88,565	$(50,901)	$37,664	

Contract rights are amounts allocated to intangible assets for dedicated floor space resulting from development agreements or placement fees. The related amortization expense, or accretion of contract rights, is netted against its respective revenue category in the accompanying consolidated statements of operations and other comprehensive income.

Internally developed gaming software is accounted for under the provisions of ASC Topic 985 “Software” and is stated at cost, which is amortized over the estimated useful life of the software, generally using the straight-line method. The Company amortizes internally-developed games over a twelve month period, gaming engines over an eighteen month period, gaming systems over a three-year period, and its central management systems over a five-year period. Software development costs are capitalized once technological feasibility has been established, and are amortized when the software is placed into service. Any subsequent software maintenance costs, such as bug fixes and subsequent testing, are expensed as incurred. Discontinued software development costs are expensed when the determination to discontinue is made. For the years ended September 30, 2013, 2012, and 2011 amortization expense related to internally-developed gaming software was $5.8 million, $4.2 million and $3.2 million respectively. During fiscal 2013, 2012 and 2011, the Company wrote-off internally-developed gaming software of $72,000, $74,000 and $83,000, respectively.

Management reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No triggering events were identified for the year ended September 30, 2013.

Amortization expense, inclusive of accretion of contract rights, totaled $14.5 million, $12.3 million, and $10.9 million for the years ended September 30, 2013, 2012, and 2011 respectively. Annual estimated amortization expense for each of the five succeeding fiscal years is as follows:

Year	Amount
(In thousands)	
2014	14,575
2015	8,660
2016	5,118
2017	2,150
2018	757
Total	$31,260

8. VALUE ADDED TAX RECEIVABLE

The Company's value added tax (VAT) receivable is a receivable from the Mexican taxing authority primarily related to a value added tax levied on product shipments originating outside of Mexico. At September 30, 2013 and 2012, the Company’s VAT receivable was $2.9 million and $3.5 million, respectively. The majority of the VAT receivable relates to equipment shipments that occurred in 2006 and 2007.

During initial operations within Mexico, the Company assumed that it would generate substantial future revenues, thus accumulating VAT payables within the country to offset against the initial and future VAT receivable balances. However, in 2009 the Company made the determination that such revenue generation would not occur at the levels necessary to offset its VAT receivable balances. Therefore, the Company proceeded to file initial refund requests for the 2006 and 2007 VAT receivable balances. This initial refund request prompted an audit by the Mexican taxing authorities and in 2010 the Company received rulings indicating that the Mexican taxing authority had challenged the registration of certain of the Company's transactions that generated a VAT receivable. Although the Company has reserved for a portion of the contested amounts, it has formally challenged these rulings, and continues to believe it has the necessary evidence to fully recover the VAT receivable.

The VAT audit results also revealed that certain months contained no contested balances, while other months contained one or more contested balances. In fiscal years 2010 and 2011, the Company formally requested refunds for all months in which no contested balances arose from the audit, resulting in the receipt of approximately $3.6 million in refunds from those uncontested months. The Company's legal counsel suggested the Company wait to file on any

portion of the contested months, until amounts were received from the uncontested months. In August 2012, the Company filed refund requests in the amount of $2.3 million for the remaining uncontested portions of 2006 and 2007. In November 2012, the Mexican taxing authority requested additional documentation which was supplied to them in December 2012. As of September 30, 2013, the Mexican taxing authority has again requested additional documentation from the Company for which the Company's legal counsel in Mexico is preparing. The Company intends to continue to vigorously pursue the collection of this receivable.

See the Notes to Consolidated Financial Statements; Note 11, "Termination of Mexico Operations" and Note 16, "Commitments and Contingencies."

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company’s accounts payable and accrued liabilities consisted of the following:

	September 30, 2013	September 30, 2012
	(In thousands)	
Trade accounts payable	$9,215	$8,800
Accrued expenses	6,727	7,270
Accrued bonus and salaries	10,809	8,044
Accrued foreign tax payable	—	2,824
Marketing reserve	1,589	2,185
Other	789	1,069
Accounts payable and accrued liabilities	$29,129	$30,192

On February 1, 2012, the Company's shareholders approved a Long-Term Incentive Program (LTIP) for certain members of the Company's executive management team. The LTIP has a performance stock component and performance cash component. The performance cash component is based on the three year performance of the Company for the 2012, 2013 and 2014 fiscal years. Pursuant to the LTIP, if the Company meets certain cumulative revenue and earnings per share performance goals, then those members of the executive management team named in the LTIP will receive a cash award. The LTIP specifies a Minimum, Target and Maximum award amount based on the cumulative revenue and earnings per share total. As of September 30, 2013, the Company believes that the Maximum award amount will be earned based on historical financial results and projected revenue and earnings per share amounts for the remaining period covered by the LTIP. Therefore, the Company has accumulated approximately $3.3 million and $1.5 million in accrued bonuses for the performance cash component of the LTIP as of September 30, 2013 and 2012, respectively.

Separately from the VAT matter discussed in Note 8 above, during the fourth fiscal quarter of 2012, in response to appeals by one of the Company's Mexican subsidiaries to the Federal Court of Mexico, Multimedia Games de Mexico received additional rulings with respect to its outstanding federal tax audits for the tax years ending December 31, 2006 and 2007. These additional rulings confirmed the Mexico taxing authorities' original position with respect to the use of additional evidence and other documents by the Company to support the Company's claims. Based on these rulings, the Company believes that it was likely that the Mexico taxing authorities would be successful in assessing the Company an amount for these audits; therefore, the Company established a $2.8 million reserve in the fourth quarter of 2012 based on its best estimates of a potential final assessment. During the current period, the Company decided not to further appeal these decisions and has instead filed a request for tax amnesty for these income tax proceedings under a program formalized by the Mexico taxing authorities in 2013 for the 2006 and 2007 tax years. The tax amnesty program for the 2006 tax year includes partial forgiveness of taxes, and total or partial forgiveness of penalties and interest and the tax amnesty program from the 2007 year includes the total or partial forgiveness of penalties and/or interest on taxes due.

In conjunction with the tax amnesty program, Multimedia Games de Mexico paid approximately $2,300 and $2.0 million for the 2006 and 2007 tax years, respectively, to settle the tax matters. On July 26, 2013, Multimedia Games de Mexico received a response from the taxing authorities and the taxing authorities have confirmed that there is no longer a tax contingency for 2006. On August 28, 2013, Multimedia Games de Mexico received a response from the taxing authorities and the taxing authorities have confirmed that there is no longer a tax contingency for 2007. Therefore, as of September 30, 2013, no reserve was maintained by the Company for these tax matters.

10. CREDIT AGREEMENT AND LONG-TERM DEBT

The Company's Credit Agreement, long-term debt consisted of the following:

	September 30, 2013	September 30, 2012
	(In thousands)	
Term loan facility	$29,600	$33,300
Less: current portion of long-term debt	(3,700)	(3,700)
Long-term debt, less current portion	$25,900	$29,600

On August 3, 2011, the Company entered into an amended and restated credit agreement with Comerica Bank in its capacity as administrative agent and lead arranger and Wells Fargo Bank, N.A., as syndication agent (the "Credit Agreement") to provide the Company a $74.0 million credit facility which replaced its previous credit facility with Comerica Bank in its entirety. The Credit Agreement consists of three facilities: an approximately $20.6 million revolving credit facility, a $37.0 million term loan, and an approximately $16.4 million draw-to term loan. The Credit Agreement, and advances made thereunder, mature on August 3, 2016. The term loan is amortized on a straight-line basis over a ten-year period, payable in equal quarterly installments of $925,000. The revolving credit facility and the draw-to term loan provide the Company the ability to finance development and placement agreements, acquisitions, and working capital for general corporate purposes. As of September 30, 2013, $29.6 million was outstanding on the term loan which bore interest at 2.94%. No amounts were outstanding on the revolving credit facility or the draw-to term loan, and each facility had approximately $20.6 million and $16.4 million, respectively, available for borrowings as of September 30, 2013. The Company has the ability to draw on the draw-to term loan until February 3, 2014 and on the revolving credit facility until the maturity of the Credit Agreement on August 3, 2016. Availability under the Credit Agreement is reduced for a $3.5 million outstanding letter of credit.

On September 21, 2012, the Company and the lenders entered into Amendment No. 1 to the Credit Agreement. Amendment No. 1 provides for, among other things, an increase in the limitation on capital expenditures from $40.0 million to $60.0 million annually, an increase in the limitation on debt to finance acquisitions and capital asset purchases from $500,000 to $1.0 million, and an amendment to the applicable margin grid, which provided for a margin reduction of 25 bps in both levels, as further set forth in the table below.

The components of the Credit Agreement will be priced based on an applicable margin grid according to the Company's leverage ratio. Assuming that the Company utilizes LIBOR as the key interest rate driver, effective as of Amendment No. 1, the following margins would apply based on the applicable leverage ratio:

	Level I	Level II
Consolidated Total Leverage Ratio	Less than 0.75 to 1.00	Greater than or equal to 0.75 to 1.00
Term loan	2.75	3.25
Revolving credit facility	2.00	2.50
Draw-to term loan	2.75	3.25

The Company obtained Level I pricing on December 5, 2011 upon delivering its financial statements for the year ended September 30, 2011 and continues to have Level I pricing subsequent to Amendment No. 1. The Company also has the option to utilize an interest rate based on the prime rate issued by the agent bank or the federal funds rate issued by the Federal Reserve Bank of New York, plus applicable margins. The Company analyzes its interest rate options and generally institutes the most favorable rate available.

The Credit Agreement is collateralized by substantially all of the Company’s assets. The Company is subject to two primary financial covenants: a total leverage ratio and a fixed charge coverage ratio. The total leverage ratio is calculated as total net funded debt to EBITDA (which is defined in the Credit Agreement as net income before interest expense, tax expense, depreciation and amortization expense, stock compensation expense and any extraordinary, unusual or non-cash non-recurring expenses up to $7.5 million for any trailing twelve month period, less any non-cash income items, including income tax credits, and any extraordinary income or gains). Total net funded debt is defined as total funded debt of the Company less unrestricted cash in excess of $10.0 million. The Company is required to maintain a total leverage ratio of 1.5 to 1.0.

The fixed charge coverage ratio is calculated as EBITDA minus:

- Income tax expense
- Dividends or other distributions on equity, not funded by the Credit Agreement
- Routine capital expenditures, defined as $2.5 million per quarter
- Repurchases or redemptions of capital stock, not funded by the Credit Agreement
- Payments and advances under development agreements, not funded by the Credit Agreement

Fixed charges include interest expense and all regularly scheduled installments of principal. The Company is required to maintain a fixed charge coverage ratio of 1.2 to 1.0.

The Company's Credit Agreement contains a Restricted Payments covenant that place restrictions on the Company's ability to declare or make any distributions, dividend, payment or other distribution on account of the Company's equity interests, subject to certain exceptions, including the payment of cash dividends, so long as pro forma for the payment of such dividends the Company is in compliance with the Credit Agreement's total leverage ratio and fixed charge coverage ratio financial covenants and no default or Event of Default has occurred and is continuing or would result in connection with such dividend.

As of September 30, 2013, the Company was in compliance with all loan covenants.

11. TERMINATION OF MEXICO OPERATIONS

In December 2012, the Company entered into an agreement with its primary customer in Mexico to sell all of the customer's leased electronic gaming machines. As part of the sale price, the Company also agreed to sell 100 additional machines to be used for spare parts, as well as certain spare components and other items from its warehouse stock. The sale of the machines represents the effective termination of the Company's operations in Mexico. As such, the majority of the Company's employees in Mexico were terminated in December 2012. The net sale of the machines was in the amount of $1.0 million and charges for severance costs, office and warehouse expenses, fixed asset write-offs and other expected expenses were accrued in the amount of $741,000. In addition, the Company recognized all foreign currency translation adjustments through December 31, 2012 which resulted in a charge of $329,000. Due to the immaterial amount of the transaction, the Company recorded the net impact of the sale and expected closing costs of the Mexico operations as part of selling, general and administrative expenses.
Due to the immaterial nature of the Company's Mexico operations, the Company is not reporting the termination of the Mexico operations as a discontinued operation for reporting purposes. For the years ended September 30, 2013 and 2012, the Mexico operations represented 1.2% and 2.1%, respectively, of total assets; less than 1% and 1.4%, respectively, of total revenue; and 1.3% and 2.2%, respectively, of net income for each period.
12. LEASES

The Company leases its corporate offices, warehouses and certain office equipment under noncancelable operating leases.

A schedule of future minimum rental payments required under noncancelable operating leases is as follows:

Year	Operating Lease Payments (In thousands)
2014	$2,043
2015	$2,045
2016	$1,305
2017	$222
2018	$20
thereafter	$—
Total Minimum Lease Payments	$5,635

Rent expense during 2013, 2012 and 2011, and amounted to $1.9 million, $2.0 million and $2.2 million, respectively.

13. INCOME TAXES

The provision for income tax (expense) benefit consisted of the following for the years ended September 30, 2013, 2012 and 2011:

	Year ended September 30,		
	2013	2012	2011
	(In thousands)		
Current:			
Federal	$(10,350)	$176	$(268)
State	(897)	87	(96)
Foreign	1,076	(1,732)	(338)
	(10,171)	(1,469)	(702)
Deferred:			
Federal	(5,807)	3,652	—
State	(431)	271	—
Foreign	(424)	423	—
	(6,662)	4,346	—
Income tax (expense) benefit	$(16,833)	$2,877	$(702)

The effective income tax rates differ from the statutory U.S. federal income tax rates as follows for the years ended September 30, 2013, 2012, and 2011:

	2013	2012	2011
Federal income tax expense at statutory rate	35%	35%	35%
State income tax expense, net of federal benefit	1.6%	(0.6)%	4.7%
Foreign income tax expense, net of federal benefit	(0.4)%	—%	4.2%
Change in valuation allowance	—%	(47.9)%	(32.9)%
Other, net	(3.7)%	2.1%	—%
Provision (benefit) for income taxes	32.5%	(11.4)%	11%

The “other, net” category above captures the impact of several tax expense items, including research and development tax credits, changes in reserves for uncertain tax positions, and the true-up of the Company's income tax accounts.

The Company did not have a valuation allowance on deferred tax assets recorded as of September 30, 2013 and 2012.

Income before income taxes consisted of (in thousands):

	Year ended September 30,		
	2013	2012	2011
	(in thousands)		
United States	$52,293	$26,918	$5,445
Non-U.S.	(526)	(1,621)	934
	$51,767	$25,297	$6,379

81

Differences between the book value and the tax basis of the Company's assets and liabilities at September 30, 2013 and 2012 result in deferred tax assets and liabilities are as follows:

	Year ended September 30,	
	2013	2012
	(In thousands)	
Deferred tax asset – current:		
Allowance for doubtful accounts	$395	$372
Inventory reserve	270	301
Accruals not currently deductible for tax purposes	3,288	3,756
Deferred revenue	338	730
Net Operating Loss Carryforwards and Credits	3,527	3,089
Current deferred tax asset	7,818	8,248
Valuation allowance	—	—
Current deferred tax asset, net	7,818	8,248
Noncurrent deferred tax asset:		
Stock compensation expense	1,460	1,281
Net Operating Loss Carryforwards and Credits	—	166
Accruals not currently deductible for tax purposes	1,230	971
Noncurrent deferred tax asset, net	2,690	2,418
Valuation allowance	—	—
Noncurrent deferred tax asset, net	2,690	2,418
Deferred tax asset	$10,508	$10,666
Noncurrent deferred tax liability		
Property and equipment, leased gaming equipment and intangible assets, due principally to depreciation and amortization differences	$(12,824)	$(6,320)
Noncurrent deferred tax liability, net	(12,824)	(6,320)
Deferred Tax Asset/(Liability)	$(2,316)	$4,346

As of September 30, 2013, the Company had no federal net operating loss carryforwards, tax affected state net operating loss carryforwards of $720,000, a federal research and development credit carryforward of approximately $1.5 million, and a federal alternative minimum tax credit carryforward of approximately $1.3 million. The net operating losses will begin to expire in varying amounts in 2031 if not utilized. The federal research and development credit will begin to expire in varying amounts in 2029 if not utilized. During the fiscal 2013 the Company utilized $5.9 million of gross federal net operating loss carryforwards which had no effect on our income tax expense, as these carryforwards were the result of excess tax benefits associated with certain stock option exercises and the benefit was recorded directly to equity.

For 2013, 2012, and 2011, the Company recorded net reductions of $10.4 million, $555,000, and $0 respectively, of its federal and state income tax liability due to the effects of stock compensation.

The management team considered the likelihood of realizing the future benefits associated with the Company's existing deductible temporary differences and carryforwards. As a result of this analysis, we believe that in the U.S. jurisdiction, as of September 30, 2013, the objective and verifiable evidence of our historical pretax net income, coupled with sustained taxable income and projected future earnings outweighs any negative evidence. Therefore, we determined that it is more likely than not that we will realize the benefits associated with our deferred tax assets in the U.S. jurisdiction. As a result, no valuation allowance has been recorded against our U.S. deferred tax assets at

September 30, 2013. In Mexico, the company continues to experience tax losses and therefore management determined that it is not more likely than not that the future benefit associated with all of the Company's existing deductible temporary differences and carryforwards in Mexico will be realized. As a result, the Company has maintained a full valuation allowance against all of its remaining Mexican deferred tax assets.

The Company maintains a valuation allowance when management believes it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in a valuation allowance from period to period are included in the tax provision in the period of change. Management evaluates the recoverability of our deferred income tax assets by assessing the need for a valuation allowance on a quarterly basis. If the Company determines that it is more likely than not that our deferred tax assets will be recovered, the valuation allowance will be reduced.

The Company paid taxes of $4.1 million, $525,000 and $325,000 in 2013, 2012 and 2011, respectively; and received refunds of $1.1 million, and $18.8 million in 2012 and 2011, respectively.

In fiscal 2013, the Company conducted operations in Mexico through a subsidiary treated as a disregarded entity for U.S. income tax purposes. Accordingly, income or losses are taxed or benefited, as appropriate, in the Company's U.S. tax provision. At present, Company management determined that it is more likely than not that the Mexican operations cannot benefit from past losses, from a Mexican tax perspective. Accordingly, a full valuation allowance has been recorded against the deferred tax asset related to the Mexican net operating loss. The effect on the total income tax expense is deemed immaterial.

The Company adopted the provisions of ASC 740-10-25 effective October 1, 2007. ASC 740-10-25 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all the relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC 740-10-25 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the years ended September 30,:

	2013	2012	2011
	(in thousands)		
Unrecognized tax benefit – October 1,	$786	$637	$320
Gross increases – tax positions in prior period	—	786	637
Gross decreases – tax positions in prior period	—	(637)	—
Gross increases – tax positions in current period	—	—	—
Settlements	(786)	—	(320)
Lapse of statute of limitations	—	—	—
Unrecognized tax benefit – September 30,	$—	$786	$637

There are no tax benefits that would affect the effective tax rate in the balance of unrecognized tax benefits at September 30, 2013, 2012 and 2011.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company had accrued interest and penalties of $0, $851,000, and $216,000 as of September 30, 2013, 2012 and 2011, respectively.

The Internal Revenue Service has concluded all phases of the examination for the tax years ended September 30, 2006, 2007, 2008, 2009 and 2010. The Company is subject to taxation in the United States, including various state jurisdictions, and Mexico. With few exceptions, the Company is no longer subject to U.S. federal and state

examinations for the tax years ending prior to September 30, 2010 and 2009, respectively.

14. INCOME PER COMMON SHARE

Income per common share is computed in accordance with ASC Topic 260, “Earnings per Share.” Presented below is a reconciliation of net income available to common shareholders and the differences between weighted average common shares outstanding, which are used in computing basic income per share, and weighted average common and potential shares outstanding, which are used in computing diluted income per share.

	2013	2012	2011
Net income available to common shareholders (in thousands)	$34,934	$28,174	$5,677
Weighted average common shares outstanding	28,929,177	27,806,840	28,105,824
Effect of dilutive securities:			
Stock options and restricted shares	1,747,510	1,454,508	580,431
Weighted average common and potential shares outstanding	30,676,687	29,261,348	28,686,255
Basic income per share	$1.21	$1.01	$0.20
Diluted income per share	$1.14	$0.96	$0.20

In the years ended September 30, 2013, 2012 and 2011 options to purchase approximately 10,733, 531,677 and 3.6 million shares of common stock were not included in the computation of dilutive income per share, due to their antidilutive effect.

15. STOCKHOLDERS' EQUITY

Preferred Stock
During fiscal 1995, the Company amended its articles of incorporation to provide for the issuance of up to 2,000,000 shares of Preferred Stock in such series and with such rights and preferences as may be approved by the Board of Directors. In January 1995, the Board of Directors approved a Series A Preferred Stock, which is cumulative, voting and convertible. In October 1998, the Board of Directors authorized 200,000 shares of Series B Junior Participating Preferred Stock, which is cumulative and voting. As of September 30, 2013 and 2012, there were no shares of Series A Preferred Stock or Series B Junior Participating Preferred Stock outstanding.

Treasury Stock
In November 2012, our Board of Directors approved a plan to repurchase up to $40 million of our outstanding common stock over a three-year period. The new share repurchase authorization replaces a $15 million repurchase authorization that was due to expire in December 2013 and which had approximately $3.1 million of repurchase authorization remaining. During 2013, the Company purchased 303,602 shares of its common stock for approximately $4.8 million at an average cost of $15.92 per share, exclusive of broker fees. From the inception of the program in December 2010 through September 30, 2013, the Company has purchased approximately 2.5 million shares of its common stock for $16.7 million at an average cost of $6.63 per share, exclusive of broker fees. At September 30, 2013, approximately $35.2 million remained on the repurchase authorization. Pursuant to the authorization, the Company may purchase shares from time to time in the open market, through block purchases or in privately negotiated transactions in accordance with Company policies and applicable securities laws. In addition, the Company has established a 10b5-1 plan, pursuant to which some of the purchases could be made from time to time in the open market, subject to certain pricing parameters. The actual number of shares to be purchased, if any, will depend upon market conditions, and purchases are subject to the restrictions in the Company's Credit Agreement. Any shares purchased will be held in the Company’s treasury for possible future use.

Stock Option Plan

Stock options are currently awarded under the Multimedia Games Holding Company, Inc. 2012 Equity Incentive Plan, which was adopted by the Company's shareholders on February 1, 2012. Shareholders approved the issuance of 1,900,000 shares pursuant to the 2012 Equity Incentive Plan. The number of common shares available for issuance from the 2012 Equity Incentive Plan as of September 30, 2013 is 1,097,439. The Company previously maintained the 1996 Stock Incentive Plan, the 1998 Senior Executive Stock Option Plan, the Ad Hoc Option Plan, the 2000 Stock Option Plan, the 2001 Stock Option Plan, the 2002 Stock Option Plan, the 2003 Outside Director Stock Option Plan, the 2008 Employment Inducement Award Plan, and the Consolidated Equity Incentive

Award Plan, each of which were approved by the Company's shareholders except the 2008 Employment Inducement Award Plan and the Ad Hoc Option Plan.

Nonqualified stock options are granted to the Company’s directors and nonqualified and incentive stock options have been granted to the Company’s officers and employees. Options granted to its officers and employees generally vest over four years and expire seven years from the date of grant. The Company expects to continue to issue stock options to new employees as they are hired, as well as to current employees as incentives from time to time. In addition, the Company expects to award continued service to the Company with other types of equity, such as restricted stock awards and restricted stock units. The Company issues new shares to satisfy stock option exercises under the plans.

For the year ended September 30, 2013, the activity relating to stock option issuances under the stock option plans is as follows:

	Number of Options	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Stock Options Outstanding October 1, 2011	4,769,401	5.22	4.62	$1.8
Granted	1,145,500	6.98		
Exercised	(1,737,996)	5.02		
Forfeited	(305,275)	6.42		
Stock Options Outstanding September 30, 2012	3,871,630	5.72	4.67	$38.9
Granted	102,600	28.22		
Exercised	(1,427,673)	6.43		
Forfeited	(44,463)	6.79		
Stock Options Outstanding September 30, 2013	2,502,094	6.22	4.29	$71.1
Stock Options Exercisable September 30, 2012	1,798,665	$6.03	3.75	$17.6
Stock Options Exercisable September 30, 2013	1,342,867	$4.89	3.70	$39.8

For the years ended September 30, 2013, 2012 and 2011, other information pertaining to stock options was as follows:

	2013	2012	2011
Weighted-average per share grant-date fair value of stock options granted	$14.43	$3.55	$2.36
Total intrinsic value of options exercised (in millions)	$39.8	$17.6	$1.0
Total grant-date fair value of stock options vested during the year (in millions)	$0.3	$2.2	$2.0

A summary of the status of the Company’s nonvested restricted stock awards and restricted stock units as of September 30, 2013 and changes during the year then ended is as follows:

Restricted Stock Awards	Number of Awards	Weighted-Average Grant-Date Fair Value
Nonvested at September 30, 2012	48,000	10.16
Granted	—	—
Vested	(48,000)	10.16
Forfeited	—	—
Nonvested at September 30, 2013	—	—

Restricted Stock Units	Number of Options	Weighted-Average Grant-Date Fair Value
Nonvested at September 30, 2012	120,000	15.58
Granted	264,950	24.56
Vested	(31,250)	
Forfeited	(6,750)	
Nonvested at September 30, 2013	346,950	

Cash received from option exercises under all share-based payment arrangements for the years ended September 30, 2013, 2012, and 2011 was $9.2 million, $8.7 million and $3.9 million. For the years ended September 30, 2013, 2012, and 2011, the Company recorded net reductions of $10.4 million, $555,000, and $0, respectively, of its federal and state income tax liability, with an offsetting credit to additional paid-in capital resulting from the excess tax benefits of stock options.

As of September 30, 2013, there was $9.9 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 1.85 years. This estimate is subject to change based upon a variety of future events which include, but are not limited to, changes in estimated forfeiture rates, cancellations and the issuance of new options.

Long-Term Incentive Program

On February 1, 2012, the Company's shareholders approved a Long-Term Incentive Program (LTIP) for certain members of the Company's executive management team. The LTIP has a performance stock component and performance cash component (see further discussion of the cash component in Footnote 9, "Accounts Payable and Accrued Liabilities"). The performance stock component is based on the price of the Company's common stock at the end of the performance period, October 1, 2011 to September 30, 2014. The LTIP states that should the Company's common stock reach certain specified Trigger Prices measured over the last three months of the performance period the named executive management team members will receive the performance stock awards. The Company obtained a third party valuation of these awards in order to record the appropriate level of compensation expense associated with the issuance of the plan and the risk associated with the stock price volatility, employee attrition, among other variables. Based on the valuation analysis the Company has recorded approximately $477,400 and $651,000 during the years ended September 30, 2013 and 2012, respectively, in stock compensation for the performance stock component of the LTIP. The remaining unamortized portion of the performance stock component of the LTIP is $564,000 as of September 30, 2013.

16. COMMITMENTS AND CONTINGENCIES

Litigation and Regulatory Proceedings

The Company is subject to the possibility of loss contingencies arising in its business and such contingencies are accounted for in accordance with ASC Topic 450, “Contingencies.” In determining loss contingencies, the Company considers the possibility of a loss as well as the ability to reasonably estimate the amount of such loss or liability. An estimated loss is recorded when it is considered probable that a liability has been incurred and when the amount of loss can be reasonably estimated.

The Company is the subject of various pending and threatened claims in the ordinary course of business. The Company believes that any liability resulting from these various other claims will not have a material adverse effect on its results of operations,

financial condition, or regulatory licenses or approvals; however, it is possible that extraordinary or unexpected legal fees, or a finding that our operations constitute illegal gaming, could adversely impact the Company's financial results during a particular fiscal period. During its ordinary course of business, the Company enters into obligations to defend, indemnify and/or hold harmless various customers, officers, directors, employees, and other third parties. These contractual obligations could give rise to additional litigation costs and involvement in court proceedings.

Alabama Litigation. The Company is currently involved in two lawsuits, as further described below, related to its former charity bingo operations in the State of Alabama. While the Company believes that these lawsuits are not material from a pure damages perspective, a finding in either of these cases that electronic charity bingo was illegal in Alabama during the pertinent time frame could potentially have a material adverse regulatory consequence for the Company in other jurisdictions in which the Company operates. The lawsuits are currently pending in federal court, and include claims related to the alleged illegality of electronic charity bingo in the State of Alabama.

Dollie Williams, et al., v. Macon County Greyhound Park, Inc., et al., a civil action, was filed on March 8, 2010, in the United States District Court for the Middle District of Alabama, Eastern Division, against the Company and others. The plaintiffs, who claim to have been patrons of VictoryLand, allege that the Company participated in gambling operations that violated Alabama state law by supplying to VictoryLand purportedly unlawful electronic bingo machines played by the plaintiffs and seek recovery of the monies lost on all electronic bingo games played by the plaintiffs in the six months prior to the complaint under Ala. Code Sec. 8-1-150(A). The plaintiffs have requested that the court certify the action as a class action. On March 16, 2012, Walter Bussey and two other named plaintiffs were voluntarily dismissed. On March 29, 2013, the court entered an order granting the plaintiffs' motion for class certification. On April 12, 2013, the defendants jointly filed a petition with the Eleventh Circuit Court of Appeals seeking permission to appeal the court's ruling on class certification. On June 18, 2013, the Eleventh Circuit Court of Appeals entered an order granting the petition to appeal. The Company's appellate briefing was concluded on Oct. 2, 2013 and it awaits a ruling from the Eleventh Circuit Court of Appeals. The Company continues to vigorously defend this matter. Given the inherent uncertainties in this litigation, however, the Company is unable to make any prediction as to the ultimate outcome. A finding in this case that electronic bingo was illegal in Alabama during the pertinent time frame could have adverse regulatory consequences for the Company in other jurisdictions.

Ozetta Hardy v. Whitehall Gaming Center, LLC, et al., a civil action, was filed against Whitehall Gaming Center, LLC (an entity that does not exist), Cornerstone Community Outreach, Inc., and Freedom Trail Ventures, Ltd., in the Circuit Court of Lowndes County, Alabama. On June 3, 2010, the Company and other manufacturers were added. The plaintiffs, who claim to have been patrons of White Hall, allege that the Company participated in gambling operations that violated Alabama state law by supplying to White Hall purportedly unlawful electronic bingo machines played by the plaintiffs and seek recovery of the monies lost on all electronic bingo games played by the plaintiffs in the six months prior to the complaint based on Ala. Code, Sec 8-1-150(A). The plaintiffs have requested that the court certify the action as a class action. On July 2, 2010, the defendants removed the case to the United States District Court for the Middle District of Alabama, Northern Division. The court has not ruled on the plaintiffs' motion for class certification. The Company continues to vigorously defend this matter. Given the inherent uncertainties in this litigation, however, the Company is unable to make any prediction as to the ultimate outcome. A finding in this case that electronic bingo was illegal in Alabama during the pertinent time frame could have adverse regulatory consequences to the Company in other jurisdictions.

Mexico Income Tax Audit

The Company's Mexican subsidiary, Multimedia Games de Mexico 1, S. de R.L. de C.V., or Multimedia Games de Mexico, has been under audit by the Mexico taxing authorities for the twelve month periods ended December 31, 2006 and 2007.

For the 2006 tax period, Multimedia Games de Mexico was assessed approximately $23,000. After several appeals, Multimedia Games de Mexico has determined not to further appeal the tax court's decisions and has instead determined to file a request for tax amnesty under a newly-announced program which was published in the Federal Official Gazette on December 17, 2012. The tax amnesty program for the 2006 tax year includes partial forgiveness of taxes due, plus a total or partial forgiveness of penalties and interest. Multimedia Games de Mexico has applied to the tax amnesty program and has paid approximately $2,300 to the tax authorities to settle this entire matter. On July 26, 2013, Multimedia Games de Mexico received a response from the taxing authorities and the taxing authorities have confirmed that there is no longer a tax contingency for 2006. Multimedia Games de Mexico did not admit liability by entering into the settlement.

For the 2007 tax year, on November 19, 2010, Multimedia Games de Mexico filed before the South Legal Matters Local Administration for the Federal District of the Tax Administration Service an administrative appeal against the resolutions set forth by the South Auditing Local Administration for the Federal District of the Tax Administration Service in ruling number 500-74-02-04-03-2010-9403, which assessed an income and value added tax deficiency of approximately $14.7 million to

Multimedia Games de Mexico for the 2007 tax year. In ruling number 600-27-00-02-00-2011 MAIB - 13370, issued by the South Legal Matters Local Administration for the Federal District of the Tax Administration Service, the Mexico taxing authorities ruled on the appeal and reduced the total amount assessed for the 2007 year to approximately $2.9 million. On December 14, 2011, Multimedia Games de Mexico filed before the Federal Tribunal of Fiscal and Administrative Justice (Tax Court) a lawsuit against the remaining $2.9 million assessment for 2007. The lawsuit was remitted to the Eleventh Regional Metropolitan Division of the Federal Tribunal of Fiscal and Administrative Matters (Tax Court), and was registered under docket number 31987/11-17-11-8. In January 2012, a bond of $2.9 million, using a $3.5 million standby letter of credit issued under the Company's domestic credit facility, was provided to the North Collecting Local Administration for the Federal District of the Tax Administration Service as collateral for the potential assessment based on the taxing authorities' current estimate of the tax due. The Tax Court reviewed the evidence and on September 19, 2012 issued its decision upholding the previous ruling against Multimedia Games de Mexico. On October 31, 2012, Multimedia Games de Mexico filed an appeal with the Federal Court of Mexico which has since been withdrawn since Multimedia Games de Mexico has applied for the tax amnesty program applicable for the 2007 tax year, which includes the total or partial forgiveness of penalties and/or interest on taxes due, and has paid approximately $2.0 million to settle the entire $2.9 million tax assessment for the 2007 year. On August 28, 2013, Multimedia Games de Mexico received a response from the taxing authorities and the taxing authorities have confirmed that there is no longer a tax contingency for 2007. Multimedia Games de Mexico did not admit liability by entering into the settlement.

17. CONCENTRATIONS OF CREDIT RISK

The Company maintains its cash in bank deposit accounts which at times may exceed the federal depository insurance limits. At September 30, 2013 and 2012, the Company had concentrations of cash in one bank totaling approximately $97 million and $69 million, respectively. The Company reviews the credit worthiness of all of the financial institutions it does business with and has not experienced any losses on such accounts in the past.

Accounts receivable represent short-term credit granted to customers for which collateral is generally not required. As of September 30, 2013 and 2012, approximately 68% and 82%, respectively, of the Company’s accounts receivable were from Native American tribes or their gaming enterprises.

In addition, a large percentage of these tribes have their reservations and gaming operations in the state of Oklahoma. Despite the industry and geographic concentrations related to the Company’s customers, due to the historical experience of the Company on receivable collections, management considers credit risk to be minimal with respect to accounts receivable. At September 30, 2013 and 2012, the following concentrations existed in the Company’s accounts receivable, as a percentage of total accounts receivable:

	September 30, 2013		2012	
Customer A	7	%	12	%

For the years ended September 30, 2013, 2012 and 2011, the following customers accounted for more than 10% of the Company’s total revenues (net of accretion):

	September 30, 2013		2012		2011	
Customer A	23	%	30	%	36	%
Customer B	10	%	11	%	8	%

Approximately 33%, 40% and 49% of the Company's total revenues (net of accretion) for the years ended September 30, 2013, 2012 and 2011, respectively, were from tribes located in Oklahoma.

While the Company believes that its relationships with all of its customers are good, the loss of any of these customers would have a material and adverse effect upon its financial condition and results of operations and cash flows.

Notes receivable consist of financial instruments issued by customers for the purchase of player terminals and licenses, and amounts generated from reimbursable amounts advanced under development agreements, generally at prevailing interest rates at the time of issuance. All of the Company's notes receivable are from Native American tribes or their gaming enterprises. At September 30, 2013 and 2012 one customer represented approximately 100% and 93%, respectively, of the notes receivable balance.

18. SUPPLEMENTAL CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarters Ended			
	December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013
	(In thousands, except per-share amounts)			
Total revenues	$44,302	$46,571	$48,105	$50,388
Operating income	$11,443	$13,921	$13,975	$13,043
Income before taxes	$11,327	$13,795	$13,783	$12,862
Net income	$7,113	$9,343	$8,449	$10,029
Diluted earnings per share	$0.24	$0.31	$0.28	$0.32
Weighted average common shares outstanding, diluted	30,017	30,348	30,710	30,936

	Quarters Ended			
	December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012
	(In thousands, except per-share amounts)			
Total revenues	$34,795	$39,532	$40,464	$41,385
Operating income (loss)	$3,795	$6,668	$7,733	$5,895
Income (loss) before taxes	$4,795	$6,999	$7,701	$5,802
Net income (loss)	$5,782	$6,818	$7,249	$8,325
Diluted earnings (loss) per share	$0.21	$0.24	$0.25	$0.28
Weighted average common shares outstanding, diluted	28,109	28,655	29,275	29,828

During the fourth fiscal quarter of 2012, in response to appeals by the Company's Mexican subsidiary to the Federal Court of Mexico, the Company's Mexican subsidiary received additional rulings with respect to outstanding federal tax audits for the tax year ending December 31, 2006 and 2007. As a result, the Company established a $2.8 million reserve based on its best estimates of a potential final assessment. The total reserve recorded includes both income and non-income based taxes. An estimated $1.6 million is associated with income based taxes, and therefore has been accounted for as an uncertain tax position in accordance with ASC 740. These reserves were released during fiscal 2013 as the tax issues were resolved.

On a quarterly basis the Company analyzes the likelihood of realizing the future benefits associated with the Company's existing deductible temporary differences and carryforwards. As a result of this analysis, in the US jurisdiction, the objective and verifiable evidence of our historical pretax net income (three year cumulative book net income was achieved during the fourth fiscal quarter of 2012), coupled with sustained taxable income and projected future earnings outweighs the negative evidence of our previous year losses. Therefore, as of September 30, 2012, the Company determined that it is more likely than not that we will realize the benefits associated with our deferred tax assets in the US jurisdiction. As a result, the Company decreased its valuation allowance by approximately $12.7 million such that no valuation allowance has been recorded against U.S. deferred tax assets at September 30, 2012. Also see, footnote 13, "Income Taxes".

19. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were issued, and determined that no events, other than those disclosed within the footnotes hereto, have occurred subsequent to September 30, 2013 that warrant additional disclosure or accounting considerations.

89

MULTIMEDIA GAMES HOLDING COMPANY, INC.

Schedule II – Valuation and Qualifying Accounts

Allowance for Doubtful Accounts

	Balance at Beginning of Period	(Recoveries)/ Additions	Deductions	Balance at End of Period
	(In thousands)			
Year Ended September 30, 2013	$266	$76	$—	$342
Year Ended September 30, 2012	$400	$(100)	$34	$266
Year Ended September 30, 2011	$614	$(156)	$58	$400

Valuation Allowance on Deferred Tax Assets

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
	(In thousands)			
Year Ended September 30, 2013	$—	$—	$—	$—
Year Ended September 30, 2012	$12,651	$—	$12,651	$—
Year Ended September 30, 2011	$14,752	$—	$2,101	$12,651

Value Added Tax Allowance

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
	(In thousands)			
Year Ended September 30, 2013	$722	$—	$15	$707
Year Ended September 30, 2012 [1]	$817	$37	$132	$722
Year Ended September 30, 2011 [2]	$880	$—	$63	$817

[1] Additions in 2012 were due to foreign currency changes.
[2] Deductions in 2011 were due to foreign currency changes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 14, 2013

Multimedia Games Holding Company, Inc.

By: /s/ Adam Chibib
Adam Chibib
Chief Financial Officer
(Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ PATRICK J. RAMSEY Patrick J. Ramsey	President, Chief Executive Officer and Director (Principal Executive Officer)	November 14, 2013
/s/ ADAM CHIBIB Adam Chibib	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	November 14, 2013
/s/ STEPHEN J. GREATHOUSE Stephen J. Greathouse	Chairman of the Board and Director	November 14, 2013
/s/ NEIL E. JENKINS Neil E. Jenkins	Director	November 14, 2013
/s/ MICHAEL J. MAPLES Michael J. Maples	Director	November 14, 2013
/s/ JUSTIN A. ORLANDO Justin A. Orlando	Director	November 14, 2013
/s/ ROBERT D. REPASS Robert D. Repass	Director	November 14, 2013

EXHIBIT INDEX

		Incorporated by reference herein				
EXHIBIT NO.	DESCRIPTION	FORM	FILE NO.	EXHIBIT	FILING DATE	Filed/Furnished Herewith
3.1	Amended and Restated Articles of Incorporation	10-QSB	000-28318	3.1	5/15/1997	
3.2	Amendment to Articles of Incorporation	10-Q	001-14551	3.2	2/17/2004	
3.3	Amendment to Articles of Incorporation	8-K	000-28318	3.1	4/5/2011	
3.4	Sixth Amended and Restated Bylaws	8-K	000-28318	3.1	9/14/2012	
10.1†	2012 Equity Incentive Plan	8-K	000-28318	10.1	2/7/2012	
10.2†	2000 Stock Option Plan	S-8	333-51072	4.1	12/1/2000	
10.3†	2001 Stock Option Plan	S-8	333-100611	4.1	10/18/2002	
10.4†	2002 Stock Option Plan	10-Q	001-14551	10.13	5/15/2003	
10.5†	2003 Outside Director Stock Option Plan	DEF14A	001-14551	Appendix B	1/6/2004	
10.6†	2008 Employment Inducement Award Plan	10-K	000-28318	10.13	12/15/2008	
10.7†	Consolidated Equity Incentive Plan	8-K	000-28318	10.1	3/26/2010	
10.8†	Form of Indemnification Agreement	8-K	000-28318	10.1	6/4/2008	
10.9†	Amended and Restated Executive Employment Agreement, dated as of September 19, 2010, by and between the Company and Patrick Ramsey	8-K	000-28318	10.1	9/20/2010	
10.10†	Amended and Restated Employment Agreement, dated as of October 31, 2010, between the Company and Adam Chibib	8-K	000-28318	10.1	11/2/2010	
10.11†	Agreement, dated as of October 10, 2012, between the Company and Jerome R. Smith	10-K	000-28318	10.14	11/15/2012	
10.12†	Employment Agreement, dated as of January 12, 2009, between the Company and Mick Roemer	10-Q	000-28318	10.2	5/8/2009	
10.13†	First Amendment to Executive Employment Agreement, dated as of December 30, 2010, between the Company and Mick Roemer	8-K	000-28318	10.2	1/5/2011	
10.14†	Second Amendment to Executive Employment Agreement with Mick Roemer, dated November 5, 2013					*
10.15†	Amended and Restated Employment Agreement, dated as of October 31, 2010, between the Company and Joaquin J. Aviles	10-K	000-28318	10.21	11/17/2011	
10.16†	Form of Option Agreement (Executive)	10-K	000-28318	10.15	11/15/2012	
10.17†	Form of Option Agreement (Director)	10-K	000-28318	10.16	11/15/2012	

10.18†	Form of Restricted Stock Agreement (Executive)	10-K	000-28318	10.17	11/15/2012

10.19†	Form of Restricted Stock Agreement (Director)	10-K	000-28318	10.18	11/15/2012	
10.20†	Form of Restricted Stock Unit Agreement (Executive)	10-K	000-28318	10.19	11/15/2012	
10.21†	Form of Restricted Stock Unit Agreement (Director)	10-K	000-28318	10.20	11/15/2012	
10.22	Amended and Restated Credit Agreement by and among Multimedia Games, Inc., MGAM Systems, Inc., Comerica Bank, in its capacity as administrative agent and lead arranger, and Wells Fargo Bank, N.A., as syndication agent, dated as of August 3, 2011	8-K	000-28318	10.1	8/3/2011	
10.23	Amended and Restated Guaranty by MegaBingo International, LLC, Multimedia Games Holding Company, Inc., and MGAM Technologies, LLC, dated as of August 3, 2011	8-K	000-28318	10.2	8/3/2011	
10.24	Amended and Restated Security Agreement by and among Multimedia Games, Inc., MGAM Systems, Inc., and Comerica Bank, dated as of August 3, 2011	8-K	000-28318	10.3	8/3/2011	
10.25	Amendment No.1 to Amended and Restated Credit Agreement by and among Multimedia Games, Inc., MGAM Systems, Inc., Comerica Bank, in its capacity as administrative agent and lead arranger, and Wells Fargo Bank, N.A., as syndication agent, dated as of September 21, 2012	8-K	000-28318	10.1	9/24/2012	
10.26	Amendment No. 1 to Amended and Restated Security Agreement by and among Multimedia Games, Inc., MGAM Systems, Inc., and Comerica Bank, dated as of September 21, 2012	8-K	000-28318	10.2	9/24/2012	
10.27†	Executive Employment Agreement with Todd McTavish, dated December 12, 2012	8-K	000-28318	10.1	1/2/2013	
21.1	Subsidiaries of registrant					*
23.1	Consent of BDO USA, LLP					*
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
32.1	Certification of the Chief Executive Officer and Chief Financial Officer, Pursuant to U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					*
101.INS	XBRL Instance Document					*
101.SCH						*

	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Calculation Linkbase Document	*

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*

† A management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(a)(3) of Form 10-K.
* Filed herewith.
** Furnished herewith.

95