

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)

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
 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
(State or other jurisdiction of incorporation or organization)

74-2611034
(IRS Employer Identification No.)

206 Wild Basin Road South, Building B
Austin, Texas
(Address of principal executive offices)

78746
(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 No

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate 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 No

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.

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of 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.

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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

Includes units installed in Alabama, Arizona, Arkansas, Connecticut, Florida, Illinois, Indiana, Iowa, Kansas, (1) 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

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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 Penn