MULTIMEDIA GAMES HOLDING COMPANY, INC.
Form 10-Q
July 30, 2013

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

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

For the quarterly period ended June 30, 2013
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission File Number: 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)

(512) 334-7500
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 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

As of July 25, 2013, there were 28,951,083 shares of the Registrant’s common stock, par value $0.01 per share, outstanding.

FORWARD LOOKING STATEMENTS

Multimedia Games Holding Company, Inc. and its subsidiaries (referred to as the “Company,” “we,” “us,” “our” or "Multimedia Games") has made forward-looking statements in this Quarterly Report on Form 10-Q 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 "Risk Factors" of Part II 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.

FORM 10-Q

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PART I
FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	June 30, 2013	September 30, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$92,484	$73,755
Accounts receivable, net of allowance for doubtful accounts of $340 and $266, respectively	24,005	17,503
Inventory	9,592	7,083
Current portion of notes receivable, net	2,076	8,024
Deferred tax asset	8,248	8,248
Prepaid expenses and other	4,044	6,837
Total current assets	140,449	121,450
Property and equipment and leased gaming equipment, net	73,668	57,924
Notes receivable - non-current	4,910	733
Intangible assets, net	36,168	37,664
Value added tax receivable, net of allowance of $718 and $722, respectively	2,860	3,511
Deferred tax asset - non current	1,870	2,418
Other assets	2,181	2,275
Total assets	$262,106	$225,975
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$3,700	$3,700
Accounts payable and accrued liabilities	29,978	30,192
Federal and state income tax payable	6,096	—
Deferred revenue	236	483
Total current liabilities	40,010	34,375
Long-term debt, less current portion	26,825	29,600
Long-term deferred tax liability	6,320	6,320
Other long-term liabilities	511	660
Total liabilities	73,666	70,955
Commitments and contingencies (Note 14)		
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, 37,364,863 and 36,296,027 shares issued, and 28,948,783 and 28,183,549 shares outstanding, respectively	374	363
Additional paid-in capital	120,764	107,751

Treasury stock, 8,416,080 and 8,112,478 common shares at cost, respectively	(66,886)	(62,048)
Retained earnings	134,188	109,283
Accumulated other comprehensive loss, net	—	(329)
Total stockholders’ equity	188,440	155,020
Total liabilities and stockholders’ equity	$262,106	$225,975

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

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MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND OTHER COMPREHENSIVE INCOME
For the Three Months Ended June 30, 2013 and 2012
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30, 2013	2012
REVENUES:		
Gaming operations	$34,314	$28,419
Gaming equipment and system sales	13,451	11,665
Other	340	380
Total revenues	48,105	40,464
OPERATING COSTS AND EXPENSES:		
Cost of gaming operations revenue[(1)]	3,704	3,167
Cost of equipment and system sales	5,461	4,894
Selling, general and administrative expenses	12,012	11,308
Research and development	4,053	3,852
Amortization and depreciation	8,900	9,510
Total operating costs and expenses	34,130	32,731
Operating income	13,975	7,733
OTHER INCOME (EXPENSE):		
Interest income	85	308
Interest expense	(277)	(330)
Other income (expense)	—	(10)
Income before income taxes	13,783	7,701
Income tax expense	(5,334)	(452)
Net income	$8,449	$7,249
Basic income per common share	$0.29	$0.26
Diluted income per common share	$0.28	$0.25
Other comprehensive income:		
Foreign Currency translation adjustments	—	(189)
Comprehensive income	$8,449	$7,060
Shares used in net income per common share:		
Basic	28,960	27,564
Diluted	30,710	29,275

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(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 condensed consolidated financial statements.

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND OTHER COMPREHENSIVE INCOME
For the Nine Months Ended June 30, 2013 and 2012
(In thousands, except per share data)
(Unaudited)

	Nine Months Ended June 30, 2013	2012
REVENUES:		
Gaming operations	$97,694	$82,363
Gaming equipment and system sales	40,242	31,372
Other	1,043	1,056
Total revenues	138,979	114,791
OPERATING COSTS AND EXPENSES:		
Cost of gaming operations revenue[(1)]	10,359	9,162
Cost of equipment and system sales	17,027	13,227
Selling, general and administrative expenses	34,930	34,332
Research and development	12,316	11,162
Amortization and depreciation	25,007	28,712
Total operating costs and expenses	99,639	96,595
Operating income	39,340	18,196
OTHER INCOME (EXPENSE):		
Interest income	399	1,320
Interest expense	(867)	(1,059)
Other income	33	1,038
Income before income taxes	38,905	19,495
Income tax benefit (expense)	(14,000)	354
Net income	$24,905	$19,849
Basic income per common share	$0.87	$0.72
Diluted income per common share	$0.82	$0.69
Other comprehensive income:		
Foreign Currency translation adjustments	—	(9)
Comprehensive income	$24,905	$19,840
Shares used in net income per common share:		
Basic	28,781	27,621
Diluted	30,487	28,940

(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 condensed consolidated financial statements.

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended June 30, 2013 and 2012
(In thousands)
(Unaudited)

	Nine Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$24,905	$19,849
Adjustments to reconcile net income to cash provided by operating activities:		
Amortization and depreciation	25,007	28,712
Accretion of contract rights	6,034	5,752
Share-based compensation	2,850	2,668
Other non-cash items	1,401	1,052
Deferred income taxes	548	—
Interest income from imputed interest	(321)	(1,084)
Changes in operating assets and liabilities	(182)	247
NET CASH PROVIDED BY OPERATING ACTIVITIES	60,242	57,196
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment and leased gaming equipment	(36,623)	(31,811)
Acquisition of intangible assets	(6,605)	(4,283)
Advances under development and placement fee agreements	(8,535)	(13,815)
Repayments under development agreements	7,689	11,933
NET CASH USED IN INVESTING ACTIVITIES	(44,074)	(37,976)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	10,174	6,828
Principal payments of long term debt	(2,775)	(2,775)
Proceeds from capital leases	—	548
Principal payments of capital leases	—	(67)
Purchase of treasury stock	(4,838)	(1,884)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,561	2,650
EFFECT OF EXCHANGE RATES ON CASH	—	(262)
Net increase in cash and cash equivalents	18,729	21,608
Cash and cash equivalents, beginning of period	73,755	46,710
Cash and cash equivalents, end of period	$92,484	$68,318
SUPPLEMENTAL CASH FLOW DATA:		
Interest paid	$810	$955
Income tax paid (refunded), net	$4,018	$774
NON-CASH TRANSACTIONS:		
Change in contract rights resulting from imputed interest on development agreement notes receivable	$328	$12
Transfer of leased gaming equipment to inventory	$1,911	$3,876

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

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NOTES TO CONDENSED 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 Native American and commercial 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 Native American and commercial 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. 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. Under these agreements, the Company places player terminals and systems as well as its proprietary and other licensed game content at a customer's facility for a contracted period of time in return for a share of the revenues that these terminals and systems generate or for a fixed daily fee. For more information on our development, placement and participation arrangements, please see "Results of Operations" in Part 2, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” below.

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 accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes contained within the Company’s Annual Report on Form 10-K for the year ended September 30, 2012. The unaudited condensed consolidated financial statements included herein as of June 30, 2013, and for each of the three and nine month periods ended June 30, 2013 and 2012, have been prepared by the Company pursuant to accounting principles generally accepted in the United States ("U.S. GAAP"), and the rules and regulations of the Securities and Exchange Commission ("SEC"). They do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The information presented reflects all adjustments consisting solely of normal recurring adjustments which are, in the opinion of management, considered necessary to present fairly the financial position, results of operations, and cash flows for the periods. Operating results for the period ended June 30, 2013 are not necessarily indicative of the results which will be realized for the year ending September 30, 2013. References to specific U.S. GAAP within this report cite topics within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). We have evaluated all subsequent events through the date that the condensed consolidated financial statements were issued. The condensed consolidated balance sheet as of September 30, 2012 was derived from the audited consolidated financial statements as of that date.

The condensed 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. 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 of property and equipment and intangible assets, 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 condensed consolidated statements of operations and other comprehensive income. On the condensed consolidated statements of cash flows, "transfer of leased gaming equipment to inventory" was combined with "acquisition of property and equipment and leased gaming equipment." 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 Item 2. "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 from 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 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 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 might 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 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 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 three-month periods ended June 30, 2013 and 2012 in the ordinary course of business or upon reviewing the nature of the assets, the Company charged operations by recording reserves or writing off $171,000 and $40,000, respectively, of property and equipment and leased gaming equipment. During the nine-month periods ended June 30, 2013 and 2012 the Company wrote-off or recorded reserves of $413,000 and $630,000, 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 June 30, 2013 and September 30, 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 $660,000 as of June 30, 2013 and September 30, 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 three month periods ended June 30, 2013 and 2012 other income was $0 and a $10,000 expense respectively. For the nine months ended June 30, 2013 and 2012, other income was $33,000 and $1.0 million respectively. The decrease for the nine month 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 the three and nine month periods ended June 30, 2013 were $4.1 million and $12.3 million, respectively, and for the three and nine month periods ended June 30, 2012 were $3.9 million and $11.2 million, 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 June 30, 2013 and September 30, 2012, based on the fair value hierarchy:

	Fair Value Measurements using			
	Level 1	Level 2	Level 3	Total
June 30, 2013				
Assets:				
Cash Equivalents:				
Money market funds	$63,012	$—	$—	$63,012
Total	$63,012	$—	$—	$63,012
Liabilities:				
Long-term debt	$—	$30,525	$—	$30,525
Total	$—	$30,525	$—	$30,525
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.

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 $2.5 million and $1.5 million for the three month periods ended June 30, 2013 and 2012, respectively, and $6.5 million and $4.1 million during the nine month periods ended June 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.

The Company granted to certain of its employees the option to purchase, in the aggregate, 9,600 and 46,400 shares of the Company's common stock during the three and nine-months ended June 30, 2013 at an average fair value per share price of $22.97 and $16.47, respectively. Total pretax share-based compensation for the three and nine months ended June 30, 2013 was $995,000 and $2.9 million. Total pretax share-based compensation for the three and nine months ended June 30, 2012 was $1.2 million and $2.7 million.

As of June 30, 2013, $6.2 million of unamortized stock compensation expense, including estimated forfeitures, remained, which will be recognized over the vesting periods of the various stock option grants.

The Company also grants awards of 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. The Company granted no restricted stock units for the three months ended June 30, 2013 and 158,800 restricted stock units for the nine months ended June 30, 2013 at an average fair value per share price of $15.11 and 48,000 shares of restricted stock for the three and nine months ended June 30, 2012 at an average fair value per share price of $10.16.

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 during the three months ended December 31, 2012 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 2014 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 condensed 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:

	June 30, 2013	September 30, 2012
	(In thousands)	
Raw materials and component parts, net of reserves of $719 and $800, respectively	$4,989	$3,653
Work in progress	4,167	2,472
Finished goods	436	958
Total Inventory	$9,592	$7,083

4. NOTES RECEIVABLE

The Company’s notes receivable consisted of the following:

	June 30, 2013	September 30, 2012
	(In thousands)	
Notes receivable from development agreements	$7,364	$8,526
Less imputed interest discount reclassed to contract rights	(378)	(370)
Notes receivable from equipment sales and other	—	601
Notes receivable, net	6,986	8,757
Less current portion	(2,076)	(8,024)
Notes receivable – non-current	$4,910	$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 June 30, 2013. All of the Company’s notes receivable from equipment sales are collateralized by the related equipment sold, although the fair market value of such equipment, if repossessed, may be less than the note receivable outstanding.

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 refundable payment of $6.5 million. The payment was made in two equal installments in November 2012 and January 2013.

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 in the three and nine month periods ended June 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:

	June 30, 2013	September 30, 2012
Included in:	(In thousands)	
Notes receivable, net	$6,986	$8,156
Intangible assets – contract rights, net of accumulated amortization	$26,854	$30,551

6. PROPERTY AND EQUIPMENT AND LEASED GAMING EQUIPMENT

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

	June 30, 2013			September 30, 2012		
	Cost	Accum. Depr.	Net Book Value	Cost	Accum. Depr.	Net Book Value
	(In thousands)					
Rental pool – deployed	$171,897	$(110,927)	$60,970	$169,262	$(122,439)	$46,823
Rental pool – undeployed(1)	19,023	(14,354)	4,669	42,320	(38,303)	4,017
Machinery and equipment	4,746	(1,634)	3,112	11,005	(7,864)	3,141
Computer software	5,535	(3,356)	2,179	6,712	(5,145)	1,567
Vehicles	2,859	(1,475)	1,384	2,640	(1,510)	1,130
Other	4,263	(2,909)	1,354	3,832	(2,586)	1,246
Total property and equipment and leased gaming equipment	$208,323	$(134,655)	$73,668	$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 4years; 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 $7.3 million and $20.7 million for the three and nine month periods ended June 30, 2013, respectively, and $8.4 million and $25.4 million for the three and nine month periods ended June 30, 2012, 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. The Company determined that because of two events that occurred during the beginning of fiscal 2013, the Company is now able to control the life cycles of its products: namely, the Company transitioned from a distributor to a manufacturer, and the beginning of fiscal year 2013 marked the three year anniversary of the deployment of the Company's proprietary wide-body cabinet, allowing the Company to better control its products' life cycles. Based on this review, 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 $1.7 million and net income by $1.1 million, or $0.03 per diluted share, for the three months ended June 30, 2013 and $6.0 million of operating income and $3.8 million of net income, or $0.13 per diluted share, for the nine months ended June 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 nine month period ended June 30, 2013, the Company did not experience a triggering event that would have caused an impairment analysis assessment.

During the three and nine month periods ended June 30, 2013, the Company sold $587,000 and $1.9 million, respectively, 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. During the three and nine month periods ended June 30, 2013, the Company disposed of, or wrote off, $171,000 and $413,000, respectively, of net book value related to third-party gaming content licenses, installation costs, and other equipment.

During the three and nine month periods ended June 30, 2012, the Company sold $1.4 million and $3.9 million, respectively, of net book value related to the Company's proprietary units on trial or revenue share from our installed base. The majority of these sales were trial units that converted to a sale. During the three and nine month periods ended June 30, 2012, the Company disposed of, or wrote off, $40,000 and $630,000, respectively, of net book value related to third-party gaming content licenses, installation costs, and other equipment.

Leased gaming equipment consist 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:

	June 30, 2013			September 30, 2012			Estimated Useful Lives
	(In thousands)						
	Cost	Accum. Amort.	Net Book Value	Cost	Accum. Amort.	Net Book Value	
Contract rights under development and placement fee agreements	$61,032	$(34,178)	$26,854	$58,694	$(28,143)	$30,551	1-7 years
Internally-developed gaming software	23,101	(14,225)	8,876	23,996	(17,423)	6,573	1-5 years
Patents and trademarks	5,949	(5,511)	438	5,875	(5,335)	540	1-5 years
Total intangible assets, net	$90,082	$(53,914)	$36,168	$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 three and nine month periods ended June 30, 2013 amortization expense related to internally-developed gaming software was $1.5 million and $4.1 million, respectively, and $1.0 million and $3.1 million, respectively, for the three-and nine-month periods ended June 30, 2012. During the three and nine months ended June 30, 2013, the Company had write-offs related to internally-developed gaming software of $0 and $72,000, respectively, compared to write-offs of $6,000 and $48,000, respectively, for the three and nine months ended June 30, 2012.

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 three months ended June 30, 2013.

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 June 30, 2013 and September 30, 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 of approximately $399,000, all of which has been fully reserved. Although the Company has fully reserved for the contested amounts, it has formally challenged these rulings, and continues to believe it has the necessary evidence for a reasonable defense.

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 June 30, 2013, the Mexican taxing authority has given the Company no indication that the outstanding refund requests will be contested.

See the Notes to Condensed Consolidated Financial Statements; Note 11, "Termination of Mexico Operations" and Note 14, "Commitments and Contingencies."

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2013	September 30, 2012
	(In thousands)	
Trade accounts payable	$8,911	$8,800
Accrued expenses	8,212	7,270
Accrued bonus and salaries	8,538	8,044
Accrued foreign tax payable	1,152	2,824

Marketing reserve	2,123	2,185
Other	1,042	1,069
Accounts payable and accrued liabilities	$29,978	$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 June 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 recorded approximately $2.8 million and $1.5 million in accrued bonuses for the performance cash component of the LTIP as of June 30, 2013 and September 30, 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 is likely that the Mexico taxing authorities will 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.

During the three months ended June 30, 2013, Multimedia Games de Mexico applied to the tax amnesty program for the 2006 and 2007 tax years and has paid approximately $2,300 and $2.0 million, 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. Multimedia Games de Mexico is currently awaiting the response from the taxing authorities confirming their acceptance of the payments as full satisfaction of the tax assessments for 2007. Therefore, the Company has maintained the balance of the reserve, or approximately $800,000 until final resolution.

10. CREDIT AGREEMENT AND LONG-TERM DEBT

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

	June 30, 2013	September 30, 2012
	(In thousands)	
Term loan facility	$30,525	$33,300
Less: current portion of long-term debt	(3,700)	(3,700)
Long-term debt, less current portion	$26,825	$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 June 30, 2013, $30.5 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 the revolving credit facility had approximately $20.6 million and the draw-to term loan had approximately$16.4 million, available as of June 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 to the extent of 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 annual 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 will be 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 restricts 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 June 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 to the customer 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, and the Company's remaining employees in Mexico are expected to be terminated during calendar year 2013. 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 $338,000. 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 three- and nine-months ended June 30, 2013, the Mexico operations represented zero and less than 1%, respectively, of total revenue; 1% of total assets for each period; and 1% or less of net income for each period. For the three and nine months ended June 30, 2012, the Mexico operations represented 1% and 2% of total revenue for each period; 3% for each period of total assets; and less than 1% of net income for each period.

12. 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.

	Three month period ended June 30,		Nine month period ended June 30,	
	2013	2012	2013	2012
Net income available to common shareholders (in thousands)	$8,449	$7,249	$24,905	$19,849
Weighted average common shares outstanding	28,959,905	27,564,055	28,781,152	27,620,817
Effect of dilutive securities:				
Stock options and restricted shares	1,750,153	1,711,298	1,706,328	1,319,482
Weighted average common and potential shares outstanding	30,710,058	29,275,353	30,487,480	28,940,299
Basic income per share	$0.29	$0.26	$0.87	$0.72
Diluted income per share	$0.28	$0.25	$0.82	$0.69

In the three and nine month periods ended June 30, 2013, options to purchase approximately 7,846 and 37,292 shares of common stock, with exercise prices ranging from $18.58 to $26.76 and $13.32 to $26.76, respectively, were not included in the computation of dilutive income per share, due to their antidilutive effect.

In the three and nine month periods ended June 30, 2012, options to purchase approximately 272,167 and 896,033 shares of common stock, with exercise prices ranging from $10.00 to $18.71 for the three month period and $6.73 to $18.71 for the nine month period, respectively, were not included in the computation of dilutive income per share, due to their antidilutive effect.

13. COMMON STOCK REPURCHASE PROGRAM

On November 15, 2012, the Company announced that its Board of Directors had authorized a program to repurchase up to $40.0 million of its outstanding common stock over the next three-year period. During the three and nine month period ended June 30, 2013, the Company purchased 56,000 and 303,600, shares of its common stock for approximately $1.2 million and $4.8 million at an average cost of $20.87 and $15.92 per share, respectively, exclusive of broker fees. At June 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.

14. 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 brief is due on August 5, 2013. 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. Multimedia Games de Mexico is currently awaiting the response from the taxing authorities for 2007. Multimedia Games de Mexico did not admit liability by entering into the settlement.

15. 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 June 30, 2013 that warrant additional disclosure or accounting considerations.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 15, 2012. This discussion and analysis also contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in the cautionary note on Forward Looking Statements above and in Part II - Item 1A. "Risk Factors" below. The following discussion and analysis is intended to enhance the reader’s understanding of our business environment, financial condition and results of operations.

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's markets served include gaming facilities operated by Native American and commercial casinos and we derive the majority of our gaming revenue from participation, or recurring revenue agreements, and development and placement fee agreements, all of which operate on a participation, or revenue share, basis. We enter 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 funding under placement fee agreements is not reimbursed. Under these agreements, we place player terminals and systems as well as its proprietary and other licensed game content at a customer's facility in return for either a share of the revenues that these terminals and systems generate or for a fixed daily lease fee. 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 the country, 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 the three months ended June 30, 2013, we saw growth in both our domestic installed base and our unit sale business. We expect fiscal 2013 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 2012. Based on current fiscal 2013 projections, we expect that our fiscal 2013 tax rate will be in the range of 36% to 37%, compared to the fiscal 2012 full year effective tax rate of 11%.

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, high-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 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 replace 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 the United States and seeking new gaming licenses. We have leveraged our expanding game portfolio gaming operations 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

Three and Nine Months Ended June 30, 2013 Compared to Three and Nine Months Ended June 30, 2012

Below are our revenues and costs and expenses for the periods noted above. This information should be read in conjunction with our Condensed Consolidated Financial Statements and notes thereto.

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2013	2012	% change	2013	2012	% change
	(in thousands)			(in thousands)		
Revenue						
Gaming Operations						
Participation revenue	$29,785	$24,279	22.7 %	$85,109	$70,966	19.9 %
Lottery	4,529	4,140	9.4 %	12,585	11,397	10.4 %
Gaming Equipment and Systems Sales						
Player terminal and equipment sales	9,968	8,986	10.9 %	30,307	24,682	22.8 %
Systems and Licensing	3,483	2,679	30.0 %	9,935	6,690	48.5 %
Other Revenue	340	380	(10.5)%	1,043	1,056	(1.2)%
Total Revenue	48,105	40,464	18.9 %	138,979	114,791	21.1 %
Costs and Expenses						
Cost of gaming operations revenue	3,704	3,167	17.0 %	10,359	9,162	13.1 %
Cost of revenues equipment and systems sales	5,461	4,894	11.6 %	17,027	13,227	28.7 %
Selling, general and administrative	12,012	11,308	6.2 %	34,930	34,332	1.7 %
Research and development	4,053	3,852	5.2 %	12,316	11,162	10.3 %
Amortization and depreciation	8,900	9,510	(6.4)%	25,007	28,712	(12.9)%
Other income (expense), net	(192)	(32)	500.0 %	(435)	1,299	(133.5)%

	At June 30		
End-of-period domestic installed player terminal base:	2013	2012	% change
Oklahoma	8,248	7,763	6.2 %
Washington	590	314	87.9 %
California	711	440	61.6 %
New York	699	631	10.8 %
Wisconsin	224	200	12.0 %
Other	1,691	801	111.1 %
Total domestic participation units	12,163	10,149	19.8 %

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

		Three Months Ended		Nine Months Ended			
	Units	Participation Revenue	% of Total Revenue	Participation Revenue	% of Total Revenue	Participation Fees Ranges	Expiration Ranges
June 30, 2013		(In thousands)		(In thousands)			
Development Agreements	4,880	$9,929	21.0%	$30,944	22.0%	20% to 30%	Mar. 2015 to Oct. 2018
Placement Fee Agreements	1,074	$1,358	3.0%	4,148	3.0%	20%	Apr. 2014 to Dec. 2017
Participation Arrangements	6,209	$18,498	38.0%	$50,018	36.0%	7% to 30%	N/A
Total	12,163	$29,785		$85,110			
June 30, 2012							
Development Agreements	4,872	$10,829	27.0%	$32,828	29.0%	20% to 30%	Mar. 2015 to Oct. 2018
Placement Fee Agreements	912	1,301	3.0%	4,149	4.0%	20%	Apr. 2014 to Dec. 2017
Participation Arrangements	4,365	$12,149	30.0%	$33,989	30.0%	7% to 30%	N/A
Total	10,149	$24,279		$70,966			

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.

Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Total revenues for the three months ended June 30, 2013 were $48.1 million, compared to $40.5 million for the three months ended June 30, 2012, a $7.6 million, or 18.9% increase, primarily due to an increase in proprietary unit sales and participation revenue in both new and existing markets.

Gaming Operations – Participation Revenue

- Oklahoma gaming revenues were $15.2 million in the three months ended June 30, 2013, compared to $15.5 million in the three months ended June 30, 2012, a decrease of $356,000, or 2.3%. The majority of the decrease is a result of decreased gaming activity at our largest customer's facilities in 2013 compared to 2012. End of period unit counts in Oklahoma as of June 30, 2013 were 8,248 compared to 7,763 as of June 30, 2012, a 485 unit, or 6.2% increase.

- Washington gaming revenues were $4.1 million in the three months ended June 30, 2013, compared to $2.9 million in the three months ended June 30, 2012, an increase of $1.2 million, or 40.5%. The increase in Washington gaming operations revenue was primarily the result of an increase in back office fees received on player terminals as well as an increase in the number of player terminals. End of period unit counts in Washington as of June 30, 2013 were 590 compared to 314 as of June 30, 2012, a 276 unit, or 87.9% increase.

- Revenues from California were $3.1 million in the three months ended June 30, 2013, compared to $1.6 million in the three months ended June 30, 2012, an increase of $1.5 million, or 91.6%. The increase in gaming operations revenue primarily relates to the increase in the number of participation units. End of period unit counts in California as of June 30, 2013 were 711 compared to 440 as of June 30, 2012, a 271 unit, or 61.6% increase.

- Revenues from the New York market were $1.2 million in the three months ended June 30, 2013 and $1.1 million in the three months ended June 30, 2012, an increase of $170,000 or 16.0%. 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 as of June 30, 2013 were 699 compared to 631 as of June 30, 2012, a 68 unit, or 10.8% increase.

- Wisconsin gaming revenues increased $271,000, or 35.8%, to $1.0 million in the three months ended June 30, 2013, compared to $757,000 in the three months ended June 30, 2012. The increase in revenue relates to an increase in yields and an increase in player terminals. End of period unit counts in Wisconsin as of June 30, 2013 were 224, compared to 200 as of June 30, 2012, a 24 unit, or 12.0% 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, and Rhode Island. Combined gaming revenue from these jurisdictions were $5.2 million in the three months ended June 30, 2013 compared to $2.1 million in the three months ended June 30, 2012, a $3.0 million, or 142.6%, increase. The increase in gaming operations revenue from these jurisdictions was primarily the result of an increase in our installed base of participation, which increased 111.1% to 1,691 as of June 30, 2013 from 801 as of June 30, 2012.

Gaming Operations – Lottery

- Revenues from the New York Lottery system increased $389,000, or 9.4%, to $4.5 million in the three months ended June 30, 2013, from $4.1 million in the three months ended June 30, 2012. The increase in New York Lottery system revenue is attributable to an increase in the total number of units, which were approximately 17,600 as of June 30, 2013 and 17,100 as of June 30, 2012.

Gaming Equipment and System Sales –Player Terminal and Equipment Sales

- Player terminal and equipment sales were $10.0 million in the three months ended June 30, 2013, and $9.0 million in the three months ended June 30, 2012, an increase of $1.0 million, or 10.9%. Player terminal sales in the three months ended June 30, 2013 were $9.6 million on the sale of 647 proprietary units, compared to sales of $8.4 million on the sale of 543 proprietary units in the three months ended June 30, 2012. The player terminal and equipment sales increase is attributable to continued growth in new markets and continued penetration into existing markets. 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. Gaming equipment sales were $200,000 in the three months ended June 30, 2013, compared to $154,000 in the three months ended June 30, 2012. Player terminal and equipment sales also include $171,000 and $466,000 related to deferred revenue recognized during the three months ended June 30, 2013 and the three months ended June 30, 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 $3.5 million in the three months ended June 30, 2013, compared to $2.7 million in the three months ended June 30, 2012, a $804,000 or 30.0% increase. Systems and licensing revenue for the three months ended June 30, 2013 relates to (i) $2.8 million of licenses associated with the player terminal sales during the period; (ii) $620,000 license revenue from game conversions; and (iii) $42,000 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 the three months ended June 30, 2012 relates to (i) $2.0 million of licenses associated with the player terminal sales during the period; (ii) $134,000 of systems and game themes sold in prior periods being recognized from deferred revenue during the period; and (iii) $549,000 of license revenue from game conversions. The increase in the year for systems and licensing is primarily attributable to the increase in the sale of licenses related to player terminal sales.

Other Revenue

- Other revenue was $340,000 in the three months ended June 30, 2013 and $380,000 in the three months ended June 30, 2012, a $40,000, or 10.5%, decrease. This decrease relates to a decrease of maintenance and service contract revenue in the three months ended June 30, 2013.

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 $537,000, or 17.0%, to $3.7 million in the three months ended June 30, 2013, from $3.2 million in the three months ended June 30, 2012. Costs of gaming operations revenue increased primarily due to the increase in the player terminal installed base.

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 $567,000, or 11.6%, to $5.5 million in the three months ended June 30, 2013, from $4.9 million in the three months ended June 30, 2012, primarily due to the increase in player terminal equipment sales. Costs of revenues related to player terminal sales were $5.3 million and $4.4 million in the three months ended June 30, 2013 and the three months ended June 30, 2012, respectively. Cost of equipment and system sales in the three months ended June 30, 2013 includes $59,000 related to the sale of gaming equipment during the period and $92,000 of costs of prior period shipments being amortized from deferred revenue over the contract period. Cost of equipment and system sales in the three months ended June 30, 2012 includes $177,000 related to the sale of gaming equipment during the period and $278,000 of costs of prior period shipments being amortized from deferred revenue over the contract period.

Selling, General and Administrative Expenses

- Selling, general and administrative expenses, or SG&A, increased approximately $704,000, or 6.2%, to $12.0 million in the three months ended June 30, 2013, from $11.3 million in the three months ended June 30, 2012. This increase was primarily a result of a increase in salaries and wages and employee benefits of $381,000 and an increase in legal expense of $380,000.

Research & Development

- Research and development expenses increased approximately $201,000, or 5.2%, to $4.1 million in the three months ended June 30, 2013, from $3.9 million in the three months ended June 30, 2012. Our research and development costs increased primarily due to salaries and wages, as a result of increased headcount and continued efforts to attract and retain employees.

Amortization and Depreciation

- Depreciation expense decreased $1.1 million, or 12.6%, to $7.3 million in the three months ended June 30, 2013, from $8.4 million in the three months ended June 30, 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 $446,000, or 39.3%, to $1.6 million in the three months ended June 30, 2013, compared to $1.1 million in the three months ended June 30, 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 $223,000, or 72.4%, to $85,000 in the three months ended June 30, 2013, from $308,000 in the three months ended June 30, 2012 due to reduced outstanding note receivable balances. During the three months ended June 30, 2013, we recorded imputed interest of $56,000 relating to development agreements with an imputed interest rate range of 2.96% to 5.25%, compared to $287,000 in the three months ended June 30, 2012.

- Interest expense decreased $53,000, or 16.1%, to $277,000 in the three months ended June 30, 2013, from $330,000 in the three months ended June 30, 2012 due to a reduction in interest rates charged under our Credit Agreement and a reduction in the outstanding debt balance.

- Other income increased $10,000, or 100.0%, to $0 in the three months ended June 30, 2013, from a $10,000 expense in the three months ended June 30, 2012. The increase primarily relates to net losses incurred on foreign currency transactions primarily related to our Mexico operations in 2012 that we do not have in 2013.

Income Taxes

- Income tax expense increased to $5.3 million in the three months ended June 30, 2013, compared to an expense of $452,000 in the three months ended June 30, 2012. These figures represent an effective income tax rate of 38.7% and 5.9% in the three months ended June 30, 2013 and 2012, respectively.

- We expect our effective tax rate in fiscal 2013 to be in the range of 36% to 37%, compared to a net benefit of approximately 11% in fiscal 2012. 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.

Nine Months Ended June 30, 2013, Compared to Nine Months Ended June 30, 2012

Total revenues for the nine months ended June 30, 2013 were $139.0 million, compared to $114.8 million for the nine months ended June 30, 2012, a $24.2 million, or 21.1% increase, primarily due to an increase in proprietary unit sales and participation revenue in both new and existing markets.

Gaming Operations – Participation Revenue

- Oklahoma gaming revenues were $46.4 million in the nine months ended June 30, 2013, compared to $47.2 million in the nine months ended June 30, 2012, a decrease of $812,000, or 1.7%. The majority of the decrease is a result of decreased gaming activity at our largest customer's facilities in 2013 compared to 2012. End of period unit counts in Oklahoma as of June 30, 2013 were 8,248 compared to 7,763 as of June 30, 2012, a 485 unit, or 6.2% increase.

- Washington gaming revenues were $11.6 million in the nine months ended June 30, 2013, compared to $7.6 million in the nine months ended June 30, 2012, an increase of $4.0 million, or 52.4%. The increase in Washington gaming operations revenue was primarily the result of an increase in back office fees received on player terminals as well as an increase in the number of player terminals installed. End of period unit counts in Washington as of June 30, 2013 were 590 compared to 314 as of June 30, 2012, a 276 unit, or 87.9% increase.

- Revenues from California were $8.2 million in the nine months ended June 30, 2013, compared to $3.9 million in the nine months ended June 30, 2012, an increase of $4.3 million, or 110.9%. The increase in gaming operations revenue primarily relates to the increase in participation units. End of period unit counts in California as of June 30, 2013 were 711 compared to 440 as of June 30, 2012, a 271 unit, or 61.6% increase.

- Revenues from the New York market were $3.4 million in the nine months ended June 30, 2013 and $3.2 million in the nine months ended June 30, 2012, an increase of $259,000 or 8.2%. The increase in New York gaming operations revenue primarily relates to the increase in the number of participation units. End of period unit counts in New York as of June 30, 2013 were 699 compared to 631 as of June 30, 2012, a 68 unit, or 10.8% increase.

- Wisconsin gaming revenues increased $772,000, or 38.5%, to $2.8 million in the nine months ended June 30, 2013, compared to $2.0 million in the nine months ended June 30, 2012. The increase in revenue relates to an increase in yields and an increase in player terminals. End of period unit counts in Wisconsin as of June 30, 2013 were 224 compared to 200 as of June 30, 2012, a 24 unit, or 12.0% 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, and Rhode Island. Gaming revenue from these jurisdictions combined was $12.5 million in the nine months ended June 30, 2013, compared to $5.3 million in the nine months ended June 30, 2012, a $7.3 million, or 138.0%, increase. The increase in gaming operations revenue was primarily the result of an increase in our installed base of participation games, which increased 111.1% to 1,691 as of June 30, 2013 from 801 as of June 30, 2012. In addition, the Company recorded gaming operations revenues of $169,000 and $1.8 million from participation units in Mexico during the nine months ended June 30, 2013 and 2012, respectively. The Company had 985 participation units in Mexico as of June 30, 2012 and in December 2012 sold all remaining units to its primary customer; therefore, as of June 30, 2012, the Company no longer operates any machines in Mexico.

Gaming Operations – Lottery

• Revenues from the New York Lottery system increased $1.2 million, or 10.4%, to $12.6 million in the nine months ended June 30, 2013, from $11.4 million in the nine months ended June 30, 2012. The total number of units within the New York Lottery system was approximately 17,600 as of June 30, 2013 and 17,100 as of June 30, 2012. The increase in New York Lottery system revenue is attributable to an increase in the total number of units and the full effect of the opening of Resorts World Casino in New York, New York on October 28, 2011.

Gaming Equipment and System Sales –Player Terminal and Equipment Sales

• Player terminal and equipment sales were $30.3 million in the nine months ended June 30, 2013, and $24.7 million in the nine months ended June 30, 2012, an increase of $5.6 million, or 22.8%. Player terminal sales in the nine months ended June 30, 2013 were $27.5 million on the sale of 1,871 proprietary units, compared to sales of $21.4 million on the sale of 1,423 proprietary units in the nine months ended June 30, 2012. The player terminal and equipment sales increase is attributable to continued growth in new markets and continued penetration into existing markets, including the sale of 150 units into a new casino in Louisiana. 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. Gaming equipment sales were $1.8 million in the nine months ended June 30, 2013 compared to $1.7 million in the nine months ended June 30, 2012. Player terminal and equipment sales also include $1.0 million and $1.5 million related to deferred revenue recognized during the nine months ended June 30, 2013 and the nine months ended June 30, 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 $9.9 million in the nine months ended June 30, 2013, compared to $6.7 million in the nine months ended June 30, 2012, a $3.2 million, or 48.5% increase. Systems and licensing revenue for the nine months ended June 30, 2013 relates to (i) $7.9 million of licenses associated with the player terminal sales during the period; (ii) $1.7 million license revenue from game conversions; and (iii) $315,000 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 the nine months ended June 30, 2012 relates to (i) $4.9 million of licenses associated with the player terminal sales during the period; (ii) $1.3 million of license revenue from game conversions; and (iii) $524,000 of systems and game themes sold in prior periods being recognized from deferred revenue during the period.

Other Revenue

• Other revenue was $1.0 million in the nine months ended June 30, 2013 and $1.1 million in the nine months ended June 30, 2012, a $13,000, or 1.2%, decrease. This decrease relates to a decrease of maintenance and service contract revenue in the nine months ended June 30, 2013.

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 $1.2 million, or 13.1%, to $10.4 million in the nine months ended June 30, 2013, from $9.2 million in the nine months ended June 30, 2012. Costs of gaming operations revenue increased primarily due to the increase in player terminal installed base.

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 $3.8 million, or 28.7%, to $17.0 million in the nine months ended June 30, 2013, from $13.2 million in the nine months ended June 30, 2012, primarily due to the increase in player terminal equipment sales. Costs of revenues related to player terminal sales were $15.6 million and $11.2 million in the nine months ended June 30, 2013 and the nine months ended June 30, 2012, respectively. Cost of equipment and system sales in the nine months ended June 30, 2013 includes $775,000 related to the sale of gaming equipment during the period and $613,000 of costs of prior period shipments being amortized from deferred revenue over the contract period. Cost of equipment and system sales in the nine months ended June 30, 2012 includes $1.1 million related to the sale of gaming equipment during the period and $874,000 of costs of prior period shipments being amortized from deferred revenue over the contract period.

Selling, General and Administrative Expenses

- Selling, general and administrative expenses, or SG&A, decreased approximately $598,000, or 1.7%, to $34.9 million in the nine months ended June 30, 2013, from $34.3 million in the nine months ended June 30, 2012. This decrease was primarily related to (i) the decrease of legal fees of $563,000; (ii) a one-time miscellaneous expense related to a $500,000 charitable donation in fiscal 2012, offset by an increase in travel costs associated with the industry's annual trade show, Global Gaming Expo, or G2E, in Nevada of $440,000.

- During the nine months ended June 30, 2013, we entered into an agreement with our primary customer in Mexico to sell to the customer all of the customer's leased electronic gaming machines. The sale of the machines represents the effective termination of our operations in Mexico. 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, we cleared all foreign currency translation adjustments through December 31, 2012 which resulted in a charge of $338,000 for the nine months ended June 30, 2013. Due to the immaterial amount of the transaction, we recorded the net impact of the sale and expected closing costs of the Mexico operations as part of selling, general and administrative expenses.

Research & Development

- Research and development expenses increased approximately $1.2 million, or 10.3%, to $12.3 million in the nine months ended June 30, 2013, from $11.2 million in the nine months ended June 30, 2012. Our research and development costs increased primarily due to salaries and wages, as a result of increased headcount and continued efforts to attract and retain employees, independent testing lab fees, and contract labor.

Amortization and Depreciation

- Depreciation expense decreased $4.7 million, or 18.5%, to $20.7 million in the nine months ended June 30, 2013 from $25.4 million in the nine months ended June 30, 2012, primarily as a result of a change in the depreciable lives of leased gaming equipment reflected in our rental pool 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 $994,000, or 29.8%, to $4.3 million in the nine months ended June 30, 2013, compared to $3.3 million in the nine months ended June 30, 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 $921,000, or 69.8%, to $399,000 in the nine months ended June 30, 2013, from $1.3 million in the nine months ended June 30, 2012 due to reduced outstanding note receivable balances. During the nine months ended June 30, 2013, we recorded imputed interest of $320,000 relating to development agreements with an imputed interest rate range of 2.95% to 9.0%, compared to $1.1 million in the nine months ended June 30, 2012.

- Interest expense decreased $192,000, or 18.1%, to $867,000 in the nine months ended June 30, 2013, from $1.1 million in the nine months ended June 30, 2012 due to a reduction in interest rates charged under our Credit Agreement and a reduction in the outstanding debt balance.

- Other income decreased $1.0 million to $33,000 in the nine months ended June 30, 2013, from $1.0 million in the nine months ended June 30, 2012. The decrease primarily relates to a gain on the exchange of used equipment with a third party equipment supplier in the nine month period ended June 30, 2012.

Income Taxes

- Income tax expense increased to $14.0 million in the nine months ended June 30, 2013, compared to a benefit of $354,000 in the nine months ended June 30, 2012. These figures represent an effective tax rate of 36.0% and (1.8)% in the nine months ended June 30, 2013 and 2012, respectively.

- As of June 30, 2013, management determined that it was 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. 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.

RECENT ACCOUNTING PRONOUNCEMENTS

We monitor new generally accepted accounting principles and disclosure reporting requirements issued by the SEC and other standard setting agencies. Recently issued accounting standards affecting our financial results are described in Note 2 of our unaudited condensed consolidated financial statements.

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 I - Item 2. Management's Discussion and Analysis - Overview" and "Part II - Item 1A. Risk Factors."

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 Condensed Consolidated Financial Statements, revenue from sales arrangements with multiple deliverables, is applied using 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, 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:

- 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. 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.

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 June 30, 2013 and 2012, rental pool assets totaled $65.6 million and $47.0 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 three months ended June 30, 2013, a significant portion of the $8.9 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 three months ended December 31, 2012, 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 in estimate increased operating income by approximately $1.7 million and net income by $1.1 million, or $0.03 per diluted share, for the three months ended June 30, 2013, and $6.0 million of operating income and $3.8 million of net income or $0.13 per diluted share, for the nine months ended June 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 three-month period ended June 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, as of June 30, 2013, we have maintained a liability associated with prior uncertain tax positions. During the three month period ended June 30, 2013, the liability related to uncertain tax positions was increased for interest accrued on those positions.

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. 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.

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.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2013, we had $92.5 million in unrestricted cash and cash equivalents, compared to $73.8 million as of September 30, 2012. During the nine month periods ended June 30, 2013 and June 30, 2012, we received approximately $8.3 million and $13.0 million, respectively, from notes receivable, of which $7.7 million and $11.9 million, respectively, were collected on development agreements. Our working capital as of June 30, 2013 was $100.4 million, compared to a working capital of $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, and an increase in accounts receivable and inventory due to increased sales volumes. During the nine months ended June 30, 2013, we used $36.6 million for capital expenditures of property and equipment compared to $31.8 million for the nine months ended June 30, 2012. In addition, we have $30.5 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 June 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	$7,400	$19,425	$—	$30,525
Estimated Interest Payments[1]	901	1,445	54	—	2,400
Operating Lease Obligations[2]	1,965	3,472	404	—	5,841
Purchase Commitments	20,391	—	—	—	20,391
Total[3]	$26,957	$12,317	$19,883	$—	$59,157

(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 June 30, 2013).

(2) Consists of operating leases for our facilities and office equipment.

(3) Uncertain tax position liabilities of $1.1 million as of June 30, 2013 are excluded from the contractual obligations table because the Company cannot make a reasonably reliable estimate of the period in which a cash settlement may be reached with the respective taxing authority.

During the nine month period ended June 30, 2013, we generated $60.2 million in cash from our operations, an increase of $3.0 million, or 5.3%, from $57.2 million during the nine month period of 2012. The increase was primarily the result of (i) a $5.1 million increase in net income; (ii) $548,000 increase in deferred income taxes; (iii) a decrease of interest income from imputed interest of $763,000, offset by a $3.7 million decrease in amortization and depreciation.

Cash used in investing activities increased $6.1 million, or 16.1%, to $44.1 million, in the nine months ended June 30, 2013, from $38.0 million during in nine months ended June 30, 2012. The increase was primarily the result of increases in capital expenditures of $4.8 million and a decrease of repayments by customers under development agreements of $4.2 million, partially offset by decreases in advances under development agreements of $5.3 million.

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

	Nine Months Ended June 30,	
	2013	2012
	(In thousands)	
Gaming equipment	$32,670	$26,581
Third-party gaming content licenses	2,041	1,692
Other	1,912	3,538
Additions to property and equipment and leased gaming equipment	$36,623	$31,811

Cash provided by financing activities decreased by $89,000, or 3.4%, to $2.6 million during the nine month period ended June 30, 2013, from cash provided by financing activities of $2.7 million during the nine month period ended June 30, 2012. The decrease was primarily the result of an increase of $3.3 million of proceeds related to the exercise of stock options, offset by a $3.0 million increase in the purchase of treasury stock during the nine months ended June 30, 2013 compared to the nine months ended June 30, 2012.

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:

	June 30, 2013	September 30, 2012
	(In thousands)	
Term loan facility	$30,525	33,300
Less: current portion of long-term debt	(3,700)	(3,700)
Long-term debt, less current portion	$26,825	$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 June 30, 2013, $30.5 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 June 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.

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 will be 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 restricts 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 2013 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 II - 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 the three months ended June 30, 2013, we purchased 56,000 shares of our common stock for approximately $1.2 million at an average cost of $20.87 per share, exclusive of broker fees. During the nine months ended June 30, 2013, we purchased approximately 303,600 shares of our common stock for approximately $4.8 million at an average cost of $15.92 per share, exclusive of broker fees. At June 30, 2013, approximately $35.2 million remains on the repurchase authorization. Pursuant to the authorization, 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 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 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 June 30, 2013, we had approximately 2.9 million options to purchase common stock outstanding, with exercise prices ranging from $1.87 to $26.76 per share, of which, approximately 1.6 million of the outstanding options to purchase common stock were exercisable.

During the nine months ended June 30, 2013, options to purchase 46,400 shares of common stock were granted at a weighted average exercise price of $16.47 per share, and we issued 1.0 million shares of common stock as a result of stock option exercises with a weighted average exercise price of $6.32. We also granted to certain employees awards of restricted stock units in the aggregate of 158,800 shares during the nine months ended June 30, 2013 at an average fair value per share of $15.11.

At June 30, 2012, we had approximately 4.3 million options to purchase common stock outstanding, with exercise prices ranging from $1.61 to $18.71 per share, of which, approximately 2.0 million of the outstanding options to purchase common stock were exercisable.

During the nine-months ended June 30, 2012, options to purchase 1.1 million shares of common stock were granted at a weighted average exercise price of $6.90 per share, and we issued 1.3 million shares of common stock as a result of stock option exercises with a weighted average exercise price of $5.13. We also granted to our non-employee directors restricted stock in the aggregate of 48,000 shares during the nine -months ended June 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 14 of our Notes to Condensed Consolidated Financial Statements "Commitments and Contingencies" and PART II – Item 1. "Legal Proceedings."

OFF-BALANCE SHEET ARRANGEMENTS

As of June 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 14 of the Notes to Consolidated Financial Statements "Commitments and Contingencies."

ITEM 3. 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 and foreign currency exchange rates, primarily with respect to our former operations in Mexico. Effective as of December 31, 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. Accordingly, there have been no material changes in our assessment of sensitivity to market risk since those described in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

As of June 30, 2013, we had total debt outstanding of $30.5 million at an effective interest rate of 2.94%, compared to $33.3 million at an effective interest rate of 3.23% as of September 30, 2012. Accordingly, there have been no material changes in our assessment of interest rate risk since those described in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

ITEM 4. 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 June 30, 2013.

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

PART II

ITEM 1. 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 brief is due on August 5, 2013. 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, 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 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 year. We are currently awaiting the response from the taxing authorities for 2007. Multimedia Games de Mexico did not admit liability by entering into the settlement.

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 Quarterly Report, including “PART I – Item 2. 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 are largely dependent upon one customer.
For the nine months ended June 30, 2013 and 2012, approximately 24% and 31%, 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 nine months ended June 30, 2013 and 2012, approximately 34% and 41%, 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. In addition, legislation allowing tribal-state compacts in Oklahoma has resulted in increased competition from other vendors, who we believe previously avoided entry into the Oklahoma market due to its uncertain and ambiguous legal environment. 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 believe that the introduction of our competitor's more aggressive Class II machines, with characteristics of traditional slot machines, into the Oklahoma Class II market has adversely affected our operating results and market position in that state and may continue to do so in the future.

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, WMS Industries, Inc., 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 and may be subject to additional income tax in Mexico which may adversely affect our financial results.

Our Mexican operations are subject to a value added tax, or VAT, which has been 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 June 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 our transactions that have generated approximately $399,000 in VAT receivable. Although we have fully 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. In addition, the Mexican taxing authorities have completed income tax audits for the 2006 and 2007 periods and have ruled that a revised assessment of approximately $2.9 million should be issued for the 2007 period. We have applied for a tax amnesty program established by the Federal Government of Mexico in December 2012 for the 2006 tax period, for partial forgiveness of taxes due, plus a total or partial forgiveness of penalties and interest, and for the 2007 period, for the total or partial forgiveness of penalties and/or interest on taxes due. 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. The inability to receive amnesty could result in additional foreign income tax expense, which may adversely affect our financial condition, operating results or cash flow.

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" as set forth in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

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.

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.

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.

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 24% of our total net revenues (net of accretion) as of June 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 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.

We do not rely upon the term of our customer contracts to retain the business of our customers.
Our contracts with our customers are on a year-to-year or multi-year 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.

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.

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.

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.

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.

The carrying value of our assets is dependent upon our ability to successfully deploy games into new or existing markets.
We have gaming units not deployed as of June 30, 2013, which are considered part of our rental pool. This rental pool is available for deployment in new or existing customer facilities. If the opening of a new facility is altered negatively or the expansion, reduction or closing of an existing facility occurs, the realizable value of these assets could be adversely impacted. In such instances we may be required to recognize impairment charges on these assets.

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.

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.

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 next 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 could 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 2013 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 2012. Based on current fiscal 2013 projections, we expect that our fiscal 2013 tax rate will be in the range of 36% to 37%, compared to the fiscal 2012 full year effective tax rate of 11%, 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.

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.

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Common Shares by the Company

The following table provides information relating to our purchases of our common shares pursuant to our Share Repurchase Program for the three month period ended June 30, 2013:

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
April 1, 2013 - April 30, 2013	44,000	$20.25	44,000	$35 million
May 1, 2013 - May 31, 2013	12,000	$23.14	12,000	$35 million
June 1, 2013 - June 30, 2013	—	—	—	$35 million
Total	56,000	$20.87	56,000	$35 million

(1) 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 next 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 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. 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.

Payment of Dividends

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 restricts 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 I - Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

ITEM 6. EXHIBITS

(a) Exhibits

See Exhibit Index.

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SIGNATURES

Pursuant to the requirements 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: July 30, 2013	Multimedia Games Holding Company, Inc.
	By: /s/ Adam Chibib Adam Chibib Chief Financial Officer (Authorized Officer, Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

		Incorporated by reference herein			
EXHIBIT NO.	DESCRIPTION	FORM	FILE NO.	EXHIBIT	FILING DATE
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				

* Filed herewith.