

MULTIMEDIA GAMES HOLDING COMPANY, INC.  
Form 10-K  
November 12, 2014

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

Form 10-K  
(Mark One)

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

For the fiscal year ended September 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-28318

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

Texas  
(State or other jurisdiction of incorporation or organization)

74-2611034  
(IRS Employer Identification No.)

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

78746  
(Zip Code)

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

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

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

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

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

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

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  x

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  x

Accelerated Filer  o

Non-Accelerated Filer  o

Smaller Reporting Company  o

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

Yes  o No  x

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which common equity was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter (March 31, 2014) was \$854,749,247 (assuming, for this purpose, that only directors and officers are deemed affiliates.)

As of November 3, 2014, there were 29,733,192 shares of the Registrant's common stock, par value \$0.01 per share, outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

None.

#### FORWARD LOOKING STATEMENTS

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

Forward-looking statements are not guarantees of performance. You should understand that the factors discussed in Item 1A of Part I of this Report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Actual results could differ materially from those stated or implied by our forward-looking statements, due to risks and uncertainties associated with our business or under different assumptions or conditions. You should not place undue reliance on any of these

forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1. Business

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

Multimedia Games was incorporated in Texas on August 30, 1991. On April 1, 2011 we changed our parent company name to "Multimedia Games Holding Company, Inc." from "Multimedia Games, Inc."

PENDING MERGER

On September 8, 2014, the Company, Global Cash Access Holdings, Inc., a Delaware corporation ("GCA"), and Movie Merger Sub, Inc., a Texas corporation and a wholly owned subsidiary of GCA, ("Merger Sub") entered into an Agreement and Plan of Merger (the Merger Agreement").

The Merger Agreement provides, among other things and subject to the terms and conditions set forth therein, that Merger Sub will be merged with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of GCA. At the effective time of the Merger (the "Effective Time"), each share of common stock of the Company outstanding immediately prior to the Effective Time (other than shares held directly or indirectly by us, GCA or Merger Sub, or held by our shareholders who are entitled to demand and properly perfect the right of dissent and appraisal of such shares pursuant to, and in compliance in all respects with, the Texas Business Organizations Code) will be automatically converted into the right to receive \$36.50 in cash, without interest and less any applicable withholding taxes.

The Board of Directors of the Company has unanimously approved the Merger Agreement and the transactions contemplated thereby, including the Merger. The closing of the Merger is subject to the approval of the Merger Agreement by the affirmative vote of holders of at least two-thirds of all outstanding shares of our common stock (the "Company Shareholder Approval"). The closing of the Merger is also subject to various customary conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act"), the receipt of specified licenses, permits, and other approvals relating to the Company's gaming operations issued by certain governmental authorities, the absence of any governmental order prohibiting the consummation of the transactions contemplated by the Merger Agreement, the accuracy of the representations and warranties contained in the Merger Agreement (subject to certain materiality qualifications) and compliance with the covenants and agreements in the Merger Agreement in all material respects. On September 26, 2014, we received notice from the Federal Trade Commission of the early termination of the applicable waiting period under the HSR Act.

The Merger Agreement contains certain termination rights, including the right of the Company to terminate the Merger Agreement to accept a superior proposal, and provides that, upon termination of the Merger Agreement by the Company or GCA upon specified conditions, a termination fee of \$32.5 million will be payable by the Company.

In addition to the foregoing termination rights, either party may terminate the Merger Agreement if the Merger is not consummated on or before June 8, 2015 (which may be extended to July 8, 2015 in certain circumstances specified in the Merger Agreement).

Following consummation of the Merger, there will be no public market for our common stock, which will cease to be traded on the NASDAQ Global Select Market, and The Company will no longer be required to file periodic reports with the Securities and Exchange Commission.

A description of the Merger Agreement and the Merger is contained in our definitive proxy statement dated October 22, 2014, which was first mailed to our shareholders on or about October 22, 2014.

## GENERAL

We design, manufacture and supply gaming machines and systems to casino operators in North America, domestic lottery operators, and commercial bingo gaming facility operators. Our revenues are generated from the operation of gaming units in revenue-sharing or flat fee leasing arrangements and from the sale of gaming units and systems that feature proprietary and licensed game themes. We lease and sell our gaming units and systems in a variety of regulated markets, including slot machines, video lottery terminals and electronic bingo machines, collectively referred to as electronic gaming machines (EGMs). We serve gaming facilities operated by commercial and Native American casino customers and derive the majority of our gaming revenue from participation arrangements or development and placement fee agreements. Under participation arrangements, we place EGMs and systems, as well as our proprietary and other licensed game content, at a customer's facility, generally on a month-to-month basis, in return

for either a share of the revenues that these EGMs and systems generate or for a fixed daily lease fee. We enter into development and placement fee agreements to provide financing for new gaming facilities or for the expansion of existing facilities in exchange for a certain amount of floor space for a contracted period of time. All or a portion of the funds provided under development agreements are reimbursed to us, while funding under placement fee agreements is not reimbursed.

We also generate revenue from the sale of EGMs and systems that feature proprietary and licensed game content. We continue to seek to increase participation and for-sale revenues by expanding into additional gaming jurisdictions and seek to expand 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.

Our standalone EGMs 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 settings. We use 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 Native American tribal gaming jurisdictions. We use the term Class II to refer to electronic games based on 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 and video lottery terminals.

We are focused on growing by executing a business plan focused on the following key initiatives: 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. 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 our focus. As a result of our efforts, during fiscal 2014 and 2013, we saw growth in both our domestic installed base and total revenue.

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

REGION <sup>(1)</sup>	Quarter Ended				
	9/30/2014	6/30/2014	3/31/2014	12/31/2013	9/30/2013
CENTRAL	9,274	9,220	9,048	9,107	9,039
EAST	1,789	1,679	1,529	1,647	1,856
WEST	2,266	2,268	2,175	1,903	1,545
Total Participation Units	13,329	13,167	12,752	12,657	12,440

(1) The Central region includes the following states: Arkansas, Iowa, Illinois, Kansas, Louisiana, Mississippi, Minnesota, North Dakota, Nebraska, New Mexico, South Dakota, and Texas. The East region includes the following states: Alabama, Connecticut, Florida, Indiana, Maryland, Michigan, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, and Wisconsin. The West region includes the following states: Arizona, California, Idaho, Nevada, and Washington.

Additional financial information relating to industry segments appears in Note 2 - Significant Accounting Policies in Part IV of this report.

We currently operate in one business segment. For information about our revenues, net income, assets, liabilities, shareholders equity and cash flows, see our Consolidated Financial Statements.



## MARKETS

We participate in the electronic gaming machine market and the central determinant system market in North America, through participation, or revenue share, and fixed fee arrangements and the sale of proprietary EGMs and systems. As of September 30, 2014, we had a total of 222 gaming licenses in 31 states and three international countries.

### Electronic Gaming Machines Market

The electronic gaming machines market in North America consists of traditional slot machines in commercial jurisdictions, as well as compact games and electronic bingo in Native American tribal gaming jurisdictions. In the fiscal year ended September 30, 2014, we derived approximately 89.2% of our total revenue from the electronic gaming machines market, compared to 86.7% in fiscal 2013 and 83.3% in fiscal 2012. These revenues totaled \$194.5 million, \$164.2 million and \$130.1 million for fiscal years 2014, 2013, and 2012, respectively.

We continued to expand the scope of our EGM offerings through the development of proprietary and innovative products, and by seeking licenses in additional Native American and other commercial casino jurisdictions. We currently have our proprietary units and linked interactive electronic games placed on participation arrangements in Native American facilities or other commercial casinos across the United States. Additionally, we have sold proprietary units to Native American and other commercial casino customers and are seeking licensing approval to sell or place our games in additional North American jurisdictions.

The licensing process includes specific jurisdictional approvals from the appropriate testing laboratory and regulatory agency. We expect to become licensed in additional commercial jurisdictions and to successfully sell and place our proprietary EGMs to new jurisdictions throughout fiscal 2015.

#### Central Determinant System Market

We provide the New York Lottery with an accounting and central determinant system for the video lottery terminals in operation at licensed New York State racetracks. As of September 30, 2014, this central determinant system connected to approximately 18,026 video lottery terminals and electronic table games provided by third party providers. The system has the ability to interface with, provide outcomes to, and manage the video lottery terminals, as well as interface with and manage the electronic table games. Pursuant to our agreement with the New York Lottery, we receive a portion of the network-wide net win (generally, cash in, less prizes paid) per day in exchange for our provision and maintenance of the central determinant system. In June 2009, the New York Lottery awarded us with a seven-year contract extension, which extends our agreement through December 2017 and provides us an opportunity to expand our network as the New York Lottery licenses additional race track gaming facilities in the state.

We also provide video lottery technologies to Native American tribes in the state of Washington, for which we receive a portion of the revenue generated from the video lottery terminals connected to the system. Revenue generated from our central determinant systems at the New York Lottery and within the state of Washington represented approximately 10% of our total revenue in fiscal 2014, compared to 13% in fiscal 2013 and 14% in fiscal 2012.

#### PRODUCTS

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

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

##### Classic Mechanical Reel Games

Our full range of classic mechanical reel games provide players with a traditional high denomination slot gaming experience. These games leverage our new and enduring brands, such as Black Diamond, Crystal Jackpots, Smokin' 777 and Jackpot Fire, among others, and feature a unique take on traditional slot games with eye-catching features. The new Skyline mechanical reel series was released with a vintage-inspired bezel showcasing RGB lighting and a 24" LCD display, with the initial release of titles Ultra Mega Meltdown and Canary Diamonds.

##### Video Reel Games

We offer a growing range of video reel games that provide a uniquely entertaining slot gaming experience. These games leverage the Player HD cabinet to deliver eye-catching graphics and full, rich sound. New high denomination,

high multi-line themes have been introduced to the market, such as Warrior Legacy and Starry Night-HD, along with a new batch of gameplay features, such as the Windfall Reels on Buckaroo, the Story Stacks on Aeronauts; and the Wild Pairs feature on Antony and Cleopatra and Bonnie and Clyde.

#### High Rise Games

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

Four new themes are being unveiled on the High Rise Games series, including Queen of Diamonds, Pirates Skull & Bones, The Money Man Big Cash Spin, and Smokin' Hot Diamonds. Queen of Diamonds is a 9-Reel, 32-Line theme featuring our new Jackpot Jump. Once any jackpot trigger is hit, players pick from one of four cards to find a diamond-suited Jackpot Jump card or a Queen of Diamonds card, which will "jump" the progressive prize by one or two tiers, respectively.

#### Platinum MPX and The Texan HDX

The award-winning Platinum MPX represents a new premium participation cabinet and game series that offers a 40" monitor, full 1080p HD graphics capabilities, a fully-customizable touchscreen button panel, game-controlled runway lighting and six custom speakers - including two speakers in the fully integrated interactive sound chair with Earthquake Shakers technology. The Platinum MPX debuted with two games in 2014, the award-winning Thundering Herd and Invasion 2: The Return, with new themes Cabinet of Curiosities, Dracula, Haunted House After Dark, and The Valkyries scheduled to be released in 2015. The Texan HDX is a brand new 8 foot tall cabinet with twin 42" video screens, featuring a two-person bench seat. The oversized cabinet will showcase any of our standard video themes from Multimedia's game library.

#### TournEvent

Our award-winning slot tournament system is a proven solution that allows operators to switch from in-revenue gaming to out-of-revenue tournaments with the simple click of a mouse. In 2014, the award-winning slot tournament system debuted a wireless tablet option, the latest out-of-revenue game, and new signage. With the wireless tablet option, casino operators will now be able to sign up players for tournaments remotely, allowing for a more efficient tournament registration and an overall better tournament experience for the casinos and players alike. The newest out-of-revenue game, Cash Boom Bang with 4 Reel Frenzy, will take slot tournaments to the next level, as tournament screens will explode into four sets of reels once a bomb appears. Jump to First and Pop-n-Win may occur during this time as well. TournEvent will also now come with a new sign option, consisting of a rotating 55" monitor, lighted accent dividers, and the ability to be featured on new bank configurations.

Building on the growing number of TournEvent installations nationwide, approximately 280 systems in 29 states as of September 30, 2014, we successfully executed our second National TournEvent of Champions, which began at participating casinos in the spring of 2014, culminating at the Championship during the 2014 Global Gaming Expo. The Championship featured 123 participants from 103 casinos nationwide competing for \$500,000 in cash prizes, including a \$200,000 grand prize. Based on the success of the 2014 National TournEvent of Champions, we plan to offer a million dollar event in 2015, awarding over \$1 million in cash prizes.

#### MANUFACTURING

We currently utilize contract manufacturers to produce the cabinets that make up our electronic gaming machines, as well as other sub-assemblies. We assemble our electronic gaming machines, which include the cabinets, computer assemblies, LCD screens, printers, bill acceptors and other wiring and harnesses, at our Austin, Texas and Las Vegas, Nevada assembly facilities. We believe that our sources of supply of component parts and raw materials are generally adequate and we have few sole-sourced parts.

#### SIGNIFICANT CUSTOMERS

A single tribe in Oklahoma, the Chickasaw Nation, accounted for 18% of our total revenue in fiscal 2014, as compared to 23% and 30% of our total revenues in fiscal 2013 and fiscal 2012, respectively. Revenues from the New York Lottery comprised 7% of our total revenue in fiscal 2014, compared to 10% and 11% in fiscal 2013 and fiscal 2012, respectively. The decline in percentage of revenue from these significant customers relates to higher revenues from new and existing customers as we continue to expand our customer base throughout North America.

#### COMPETITION

We compete in a variety of gaming markets with equipment suppliers of varying size. Competition is generally on the basis of the amount of profits our products generate for our customers relative to the amount of profits generated by our competitors' products, as well as the prices and/or fees we and our competitors charge for products and services offered. We believe that, in addition to economic considerations, the most important factor influencing product selection is end user appeal, which has a direct effect on the volume of play generated by a product and drives the revenues generated for our customers. To drive customer demand and improve product attractiveness to end users, we are continually working to develop new game themes, gaming engines, hardware platforms and systems, all while working to release these new products to the marketplace in a timely manner.

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

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

## RESEARCH AND DEVELOPMENT

We conduct research and development activities primarily to develop new gaming systems, gaming engines, casino data management systems, casino central monitoring systems, video lottery outcome determination systems, gaming platforms and gaming content, as well as to add enhancements to our existing product lines. We believe our ability to deliver differentiated, appealing products and services to the marketplace is based on our research and development investments and we expect to continue to make such investments in the future. Research and development costs consist primarily of salaries and benefits, consulting fees and an allocation of corporate facilities costs related to these activities. Once the technological feasibility of a project has been established, it is transferred from research to development and capitalization of development costs begins until the product is available for general release. Research and development expenses were \$17.2 million, \$16.8 million and \$15.1 million for the years ended September 30, 2014, 2013 and 2012, respectively.

## INTELLECTUAL PROPERTY

We develop intellectual property in our industry. While we do not believe that any single patent or item of our intellectual property is crucial to our business, we do use a combination of patents, copyrights, trade secrets, trademarks and proprietary information to create, maintain and/or enhance a competitive position, protect our products and defend against litigious competitors. We have been granted over 206 patents related to games and systems, most of which are unexpired, and have more than 71 patent applications pending in the United States and in many foreign countries, including 133 patents issued and 61 patents pending in the United States. The expiration dates of these patents vary and are based on their filing and issuances dates. We intend to continue to actively file for patent protection, when such filings are commercially reasonable, within and outside the United States. We also seek protection for a large number of our products by registering hundreds of trademarks in the United States and various foreign countries. We have 396 registered trademarks and 176 trademarks pending in the United States. Under permission or license agreements with third parties, we also sell products covered by independently filed copyrights, trademarks, and/or patents. Typically, these contracts require us to pay royalties to the licensing party. Royalty expenses are included in cost of gaming and systems in our consolidated financial statements included in this report.

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

## SEASONALITY

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

## EMPLOYEES

At September 30, 2014, we had 524 full-time and part-time employees, including 204 engaged in field operations, customer support and manufacturing, 216 in system and game development, 42 in sales and marketing, 19 in accounting and finance and 43 in other general administrative and executive functions. We do not have a collective bargaining agreement with any of our domestic employees and we believe our relationship with our current employees is good.

## FOREIGN AND DOMESTIC OPERATIONS AND GEOGRAPHIC DATA

The United States represents our largest geographic market. Approximately 99% of our revenue in fiscal 2014 came from customers inside the United States, compared to 99% and 98% in fiscal 2013 and fiscal 2012, respectively. All of our long-lived assets outside of the United States were immaterial for each of fiscal 2014, 2013, and 2012. Outside the United States, we maintained an electronic lottery system for the Electronic Instant Lottery system in Israel until March 2014. In addition, in early fiscal 2013, we terminated our operations in Mexico following the sale of our existing EGMs to our largest customer in the market. Revenue from these international operations provided 1% of our total revenue in fiscal 2014, compared to 1% in fiscal 2013 and 2% in fiscal 2012.

## GAMING REGULATIONS AND LICENSING

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

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

We hold 222 gaming licenses, which allow us to conduct business in commercial and tribal jurisdictions across the United States. While the regulatory requirements vary from jurisdiction to jurisdiction, most require:

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

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

In general, we are subject to a wide range of federal, state and Native American laws and regulations that affect our general commercial relationships with our Native American tribal customers and the products and services we provide. As we more fully enter the traditional commercial gaming marketplace, we will also be subject to increased state regulatory requirements that will require more in-depth state-by-state licensing and oversight. Furthermore, we may also be subject to a wide range of state and local regulations in the markets where we seek to provide products and services for charity bingo markets.

### Federal Regulation

At the federal level, we are subject to two key pieces of legislation. Our Native American customers are regulated by the National Indian Gaming Commission (NIGC), which was established by the Indian Gaming Regulatory Act of



1988 (IGRA). The NIGC has regulatory authority over certain aspects of Native American gaming and defines the boundaries of our dealings with the Native American marketplace and the level of regulatory authority to which these games are subject.

The Federal Gambling Devices Act of 1962 (the Johnson Act) requires us to register annually with the Criminal Division of the United States Department of Justice and requires a wide variety of record-keeping and equipment-identification efforts on our part. Registration is required in order for us to sell, distribute, manufacture, transport and/or receive gaming equipment, machines or components across state lines. If we fail to comply with the requirements set forth under the Johnson Act, we could become subject to a variety of penalties, including, but not limited to, the seizure and forfeiture of equipment.

#### State Licensing

We are subject to licensing requirements in each state in which we seek to conduct business. We are licensed in several commercial gaming jurisdictions including: Arkansas, Florida, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Michigan, Mississippi,

New Mexico, Nevada, Ohio, Oklahoma, and Pennsylvania. Additionally, we are currently undergoing the licensing application process in the states of Colorado and New Jersey. Each state license is considered to be a privilege license and is subject to regulatory, technical, and statutory requirements.

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