MULTIMEDIA GAMES HOLDING COMPANY, INC.
Form 10-Q
August 05, 2011

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, 2011
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission File Number: 000-28318

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

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

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

Registrant's website: www.multimediagames.com

(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 August 1, 2011, there were 26,601,330 shares of the Registrant's common stock, par value $0.01 per share, outstanding.

FORM 10-Q

INDEX

PART I
FINANCIAL INFORMATION
Item 1. Condensed Financial Statements
MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
As of June 30, 2011 and September 30, 2010
(In thousands, except shares)
(Unaudited)

	June 30, 2011	September 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$49,236	$21,792
Accounts receivable, net of allowance for doubtful accounts of $680 and $614, respectively	13,106	11,119
Inventory	6,388	3,561
Prepaid expenses and other	2,393	2,713
Current portion of notes receivable, net	14,415	13,698
Federal and state income tax receivable	1,257	19,658
Total current assets	86,795	72,541
Property and equipment and leased gaming equipment, net	46,126	48,588
Long-term portion of notes receivable, net	14,396	25,193
Intangible assets, net	27,779	31,510
Value added tax receivable, net of allowance of $934 and $880, respectively	3,119	4,627
Other assets	3,198	3,635
Total assets	$181,413	$186,094
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$2,963	$750
Accounts payable and accrued expenses	22,118	21,501
Deferred revenue	1,539	3,083
Total current liabilities	26,620	25,334
Long-term debt, less current portion	41,100	43,875
Other long-term liabilities	679	737
Deferred revenue, less current portion	973	1,551
Total liabilities	69,372	71,497
Commitments and contingencies		
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, 34,287,622 and 33,523,082 shares issued, and 26,560,165 and 27,619,665 shares outstanding, respectively	343	335
Additional paid-in capital	93,810	89,598
Treasury stock, 7,727,457 and 5,903,417 common shares at cost, respectively	(60,164)	(50,128)
Retained earnings	78,006	75,432
Accumulated other comprehensive income (loss), net	46	(640)

Total stockholders’ equity	112,041	114,597
Total liabilities and stockholders’ equity	$181,413	$186,094

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

3

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended June 30, 2011 and 2010
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30, 2011	2010
REVENUES:		
Gaming operations	$24,557	$23,810
Gaming equipment and system sales	8,525	4,935
Other	317	331
Total revenues	33,399	29,076
OPERATING COSTS AND EXPENSES:		
Cost of gaming operations revenue[1]	2,364	2,655
Cost of equipment and system sales	3,760	2,522
Selling, general and administrative expenses	10,498	9,738
Write-off, reserve, impairment & settlement charges	634	381
Research and development	3,332	3,041
Amortization and depreciation	10,207	12,760
Total operating costs and expenses	30,795	31,097
Operating income (loss)	2,604	(2,021)
OTHER INCOME (EXPENSE):		
Interest income	586	830
Interest expense	(813)	(1,012)
Other Income (expense)	213	(49)
Income (loss) before income taxes	2,590	(2,252)
Income tax benefit	178	2,612
Net income	$2,768	$360
Basic income per common share	$0.10	$0.01
Diluted income per common share	$0.10	$0.01
Shares used in income per common share:		
Basic	27,184	27,437
Diluted	27,813	27,962

(1) Cost of gaming operations revenue 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.

4

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Nine Months Ended June 30, 2011 and 2010
(In thousands, except per share data)
(Unaudited)

	Nine Months Ended June 30, 2011	2010
REVENUES:		
Gaming operations	$69,978	$69,648
Gaming equipment and system sales	21,035	16,354
Other	1,119	1,477
Total revenues	92,132	87,479
OPERATING COSTS AND EXPENSES:		
Cost of gaming operations revenue[(1)]	6,575	7,123
Cost of equipment and system sales	10,386	7,473
Selling, general and administrative expenses	31,260	29,178
Write-off, reserve, impairment & settlement charges	837	3,896
Research and development	9,726	8,922
Amortization and depreciation	30,527	39,984
Total operating costs and expenses	89,311	96,576
Operating income (loss)	2,821	(9,097)
OTHER INCOME (EXPENSE):		
Interest income	2,021	2,798
Interest expense	(2,461)	(3,462)
Other income	801	64
Income (loss) before income taxes	3,182	(9,697)
Income tax (expense) benefit	(608)	331
Net income (loss)	$2,574	$(9,366)
Basic income (loss) per common share	$0.09	$(0.34)
Diluted income (loss) per common share	$0.09	$(0.34)
Shares used in income (loss) per common share:		
Basic	27,963	27,340
Diluted	28,610	27,340

(1) Cost of gaming operations revenue 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.

5

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended June 30, 2011 and 2010
(In thousands)
(Unaudited)

	Nine Months Ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$2,574	$(9,366)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Amortization and depreciation	30,527	39,984
Accretion of contract rights	5,269	5,053
Share-based compensation	1,295	1,454
Other non-cash items	486	3,618
Deferred income taxes	—	4,107
Interest income from imputed interest	(1,842)	(2,529)
Changes in operating assets and liabilities	16,740	6,889
NET CASH PROVIDED BY OPERATING ACTIVITIES	55,049	49,210
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment and leased gaming equipment	(26,903)	(23,947)
Acquisition of intangible assets	(3,431)	(2,614)
Advances under development and placement fee agreements	(800)	(3,040)
Repayments under development agreements	10,747	13,233
NET CASH USED IN INVESTING ACTIVITIES	(20,387)	(16,368)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2,925	998
Principal payments of long term debt	(562)	(15,187)
Payments on revolving lines of credit	—	(15,000)
Proceeds from revolving line of credit	—	15,000
Purchase of treasury stock	(10,036)	—
NET CASH USED IN FINANCING ACTIVITIES	(7,673)	(14,189)
EFFECT OF EXCHANGE RATES ON CASH	455	(294)
Net increase in cash and cash equivalents	27,444	18,359
Cash and cash equivalents, beginning of period	21,792	12,455
Cash and cash equivalents, end of period	49,236	30,814
SUPPLEMENTAL CASH FLOW DATA:		
Interest paid	$2,203	$2,889
Income tax refunded, net	$17,897	$5,405
NON-CASH TRANSACTIONS:		
Change in contract rights resulting from imputed interest on development agreement notes receivable	$93	$(229)

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

6

1. SUMMARY OF COMPANY INFORMATION

Business
Multimedia Games Holding Company, Inc. f/k/a Multimedia Games, Inc. and subsidiaries (the "Company," "we," "us," "our" or "Multimedia Games") designs, manufactures and supplies innovative standalone and networked gaming systems. The Company's standalone player terminals, server-based systems, video lottery terminals, electronic scratch ticket systems, electronic instant lottery systems, back-office systems and bingo systems are used by Native American and commercial casino operators as well as state lottery operators in North America and in certain international markets. The Company has long been a provider of server-based gaming systems known as central determinant and downloadable systems. These systems are used by the Company's Native American gaming operator customers in both Class II and Class III settings, by the Company's commercial casino customers, by operators of charity and commercial bingo gaming facilities, and by lottery jurisdictions for operation of their video lottery systems.

The Company continues to derive the majority of its gaming revenues from participation, or revenue share, agreements. Under the Company's participation agreements, the Company places player terminals and systems, along with the Company's proprietary and other licensed game content, at a customer's facility in return for a share of the revenues that these terminals and systems generate. The Company also generates revenues from the sale of gaming units and systems though the Company is seeking to increase its for-sale revenues as the Company expands into additional gaming jurisdictions and into other segments of the gaming market. In addition, the Company generates revenues by providing the central determinant system for video lottery terminals installed at racetracks in the State of New York and operated by the New York State Division of the Lottery. The Company offers content for its gaming systems that has been designed and developed by the Company, as well as game themes the Company has licensed from others. The Company currently operates in one business segment.

Basis of Presentation and Principles of Consolidation
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, 2010.

The unaudited condensed consolidated financial statements included herein as of June 30, 2011, and for each of the three and nine month periods ended June 30, 2011 and 2010, 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, 2011 are not necessarily indicative of the results which will be realized for the year ending September 30, 2011. 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, 2010 was derived from the audited consolidated financial statements at that date.

The Company's financial statements include the accounts of Multimedia Games Holding Company, Inc. and its wholly-owned subsidiaries: Multimedia Games, Inc. (f/k/a MegaBingo, Inc.), MGAM Systems, Inc., MegaBingo International, LLC,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, contract losses, 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.

Reclassification

Reclassifications were made to the prior-period financial statements to conform to the current period presentation. Such reclassifications include the cash flow line item, "transfer of leased gaming equipment to inventory" from previously filed reports was combined with the cash flow line item "acquisitions of property and equipment and leased gaming equipment." The statement of operations had the following reclassifications: (i) "cost of gaming operations revenue" was reclassified from "cost of equipment and system sales" and "selling, general and administrative expenses"; (ii) "research and development" was reclassified from "selling, general and administrative expenses"; and (iii) foreign exchange gains and losses have been reclassified to "other income (expense)" from "selling, general and administrative expenses". These reclassifications did not have an impact on the Company's previously reported results of operations or earnings (loss) 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 revenue generated from the Company's commercial products, Class III products, Native American Class II products, charity bingo 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.

The majority of the Company's gaming revenue is generated under lease participation arrangements when the Company provides its customers with player terminals, player terminal-content licenses and back-office equipment, collectively referred to as gaming equipment. Under these arrangements, the Company retains ownership of the gaming equipment installed at customer facilities, and the Company receives revenue based on a percentage of the net win per day generated by the 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 agreements is reduced by the accretion of contract rights from those development agreements. Contract rights are amounts allocated to intangible assets for dedicated floor space resulting from development agreements, described under "Development Agreements." The related amortization expense, or accretion of contract rights, is netted against its respective revenue category in the condensed consolidated statements of operations.

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 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 clarifying 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 and maintenance. ASU No. 2009-13 replaces and significantly changes the existing separation criteria for multiple-deliverable revenue arrangements by eliminating the criterion for objective and reliable evidence of fair value for the undelivered products or services to determine a unit of accounting. Instead, 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 also eliminates the use of the residual method of allocation and requires, instead, 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 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, 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.

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 and notes receivable on a quarterly basis to determine if any receivables will potentially be uncollectible. Management analyzes historical collection trends and changes in its customer payment patterns, customer concentration, and creditworthiness when evaluating the adequacy of its allowance for doubtful accounts. In its overall allowance for doubtful accounts, the Company includes any receivable balances where uncertainty exists as to whether the account balance has become uncollectible. Based on the information available, management believes the allowance for doubtful accounts is adequate; however, actual write-offs 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, 2011 and 2010, in the ordinary course of business activities or upon reviewing the nature of the assets, the Company charged operations by recording reserves or writing off \$113,000 and \$24,000, respectively, of property and equipment and leased gaming equipment and \$372,000 and \$380,000, respectively, for the nine month periods ended June 30, 2011 and 2010.

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. 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 48 - 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 and in the future, the Company may by mutual agreement and for consideration, 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 pre-paids and refundable deposits. At June 30, 2011 and September 30, 2010, the restricted cash balances were \$679,000 and \$737,000, 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. These annuities were \$679,000 and \$737,000 as of June 30, 2011 and September 30, 2010, respectively.

Other Income (Expense)

Other income was $213,000 and $801,000 for the three and nine month periods ended June 30, 2011, respectively. Other income primarily resulted from a gain on the exchange of used equipment with our third party equipment suppliers, as well as gains or losses incurred on foreign currency transactions primarily related to our Mexico operations.

Other expense was $49,000 for the three month periods and other income was $64,000 for the nine month periods ended June 30, 2010, respectively. Other income (expense) resulted from gains and losses incurred on foreign currency transactions primarily related to our Mexico operations.

Research and Development Costs

Research and development costs for the three and nine month periods ended June 30, 2011 were $3.3 million and $9.7 million respectively, include hardware and software development efforts related to future gaming products and systems and enhancements to our existing product lines. Research and development costs for the three and nine month periods ended June 30, 2010 were $3.0 million and $9.0 million respectively.

Fair Value of Financial Instruments
The carrying value of financial instruments reported in the accompanying condensed consolidated balance sheets for cash, accounts receivable, current portion of notes receivable, accounts payable, and accrued expenses payable and other liabilities, approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The carrying amount for our credit facility approximates fair value due to the fact that the underlying instrument includes provisions to adjust interest rates to approximate fair value.

Segment and Related Information
Although the Company has a number of operating divisions the Company reports as one segment, as these divisions meet the criteria for aggregation as permitted by ASC Topic 280, "Segment Reporting." 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. Our 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 our warehouse and assembly facility in Austin, Texas. Our customers consist of entities in the business of operating gaming, bingo or lottery facilities, and include Native American Tribes, charity bingo operators and commercial entities licensed to conduct such business in their jurisdictions. The distribution of our products is consistent across the entire Company and is performed via an internal fleet of vehicles, as well as third party transportation companies. The regulatory environment is similar in every jurisdiction in that gaming is regulated and our games must meet the regulatory requirements established. In addition, the economic characteristics of each customer arrangement are similar in that we obtain 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. Our Chief Operating Decision Maker analyzes our 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 operating performance of the Company.

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 $1.3 million and $820,000 during the three month periods ended June 30, 2011 and 2010, 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 condensed consolidated statements of operations.

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, 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.

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

Share-Based 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. The Company applies the "modified prospective" method, under which compensation cost is recognized in the financial statements beginning with the adoption date for all share-based payments granted after that date, and for all unvested awards granted prior to the adoption date. 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, 66,100 shares of the Company's common stock during the three months ended June 30, 2011 at an average fair value per share price of $5.47. Total pretax share-based compensation for the three and nine month periods ended June 30, 2011 were $313,000 and $1.3 million, respectively; and $230,000 and $1.5 million, respectively, for the three and nine month periods ended June 30, 2010. In the three and nine month periods ended June 30, 2011, the Company did not recognize an income tax benefit for stock-based compensation arrangements as we determined that it is more likely than not that we will not be able to realize the benefit of deferred tax assets in the foreseeable future. As of June 30, 2011, $5.1 million of unamortized stock compensation expense, including estimated forfeitures, remained, which will be recognized over the vesting periods of the various stock option grants.

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 (loss) a component of shareholder equity, 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 condensed consolidated statement of operations in accordance with ASC Topic 830.

Comprehensive Income (Loss)
Comprehensive income (loss) consists of the following:

	Three months ended June 30,	Nine Months Ended June 30,

	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Net income (loss)	$2,768	$360	$2,574	$(9,366)
Foreign currency translation adjustment	63	(448)	686	617
Comprehensive income (loss)	$2,831	$(88)	$3,260	$(8,749)

Recent Accounting Pronouncements Issued

In April 2010, the FASB issued new accounting guidance related to accruals for casino jackpot liabilities. Specifically, the guidance clarifies that an entity should not accrue jackpot liabilities, or portions thereof, before a jackpot is won if the entity can avoid paying the jackpot. Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. The guidance applies to both base and progressive jackpots. The new guidance is effective for fiscal years beginning on or after

December 15, 2010. The new guidance will be applied by recording a cumulative-effect adjustment to opening retained earnings in the period of adoption. The Company expects to adopt the guidance in fiscal year 2012 and is currently in the process of evaluating the impact the guidance will have on its consolidated results of operations, financial position and cash flows.

In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-02, "Receivables (Topic 310) - A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring" (ASU 2011-02). The guidance clarifies whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring is a troubled debt restructuring. The new guidance is effective for interim or annual periods beginning after June 15, 2011. The Company expects to adopt the guidance in fiscal year 2012 and is currently in the process of evaluating the impact the guidance will have on its consolidated results of operations, financial position and cash flows.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS" (ASU 2011-04). The guidance improves the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The new guidance is effective for interim or annual periods beginning after December 15, 2011. The Company expects to adopt the guidance in fiscal year 2012 and is currently in the process of evaluating the impact the guidance will have on its consolidated results of operations, financial position and cash flows.

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income" (ASU 2011-05). The guidance improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in comprehensive income, while facilitating the convergence of U.S. GAAP and IFRS. The guidance eliminates the option to present components of other comprehensive income as part of the statement of stockholders' equity, and instead requires a single continuous statement of comprehensive income as part of the statement of operations or a separate, but continuous, statement of other comprehensive income. The new guidance is effective for interim or annual periods beginning after December 15, 2011. The Company expects to adopt the guidance in fiscal year 2012, although early adoption is permitted. The Company does not expect the guidance to have a material impact on its consolidated results of operations, financial position and cash flows, other than the presentation thereof.

3. 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. 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 42 - 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 repaysome 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 and in the future, the Company may, by mutual agreement and for consideration, 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.

Management reviews intangible assets related to development agreements for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no events or changes in circumstances during the three and nine month periods ended June 30, 2011, which would require an impairment charge to the carrying value of intangible assets recorded in connection with development agreements.

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

13

	June 30, 2011	September 30, 2010
Included in:	(In thousands)	
Notes receivable, net	$26,406	$35,404
Intangible assets – contract rights, net of accumulated amortization	$22,517	$26,894

4. INVENTORY

Inventory consisted of the following (in thousands):

	June 30, 2011	September 30, 2010
Raw materials and component parts, net	$4,041	$2,408
Work in progress	849	632
Finished goods	1,498	521
Total Inventory	$6,388	$3,561

5. PROPERTY AND EQUIPMENT AND LEASED GAMING EQUIPMENT

The Company's property and equipment and leased gaming equipment consisted of the following (in thousands):

	June 30, 2011			September 30, 2010		
	Cost	Accum. Depr.	Net Book Value	Cost	Accum. Depr.	Net Book Value
Rental pool – deployed	$163,476	$130,221	$33,255	$174,753	$135,125	$39,628
Rental pool – undeployed[(1)]	78,584	68,118	10,466	68,107	61,474	6,633
Machinery and equipment	11,911	10,948	963	14,005	12,900	1,105
Computer software	6,821	6,176	645	7,965	7,394	571
Vehicles	2,309	1,830	479	2,476	2,149	327
Other	2,942	2,624	318	4,332	4,008	324
Total property and equipment and leased gaming equipment	$266,043	$219,917	$46,126	$271,638	$223,050	$48,588

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(1) Gaming equipment and third-party gaming content licenses begin depreciating when they are available for customer use.

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 three and nine month periods ended June 30, 2011, in the ordinary course of business activities or upon reviewing the nature of the assets, the Company disposed, wrote off or sold $634,000 and $1.5 million respectively of third-party gaming content licenses, Native American tribal gaming facilities and portable buildings, vehicles, deployed gaming equipment, or other equipment. In the same periods ended June 30, 2010, the Company disposed, wrote off or sold $303,000 and $1.9 million respectively.

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

6. INTANGIBLE ASSETS

The Company’s intangible assets consisted of the following:

	June 30, 2011	September 30, 2010	Estimated Useful Lives
	(In thousands)		
Contract rights	$48,361	$51,777	4-7 years
Internally-developed gaming software	34,561	31,355	1-5 years
Patents and trademarks	6,858	6,776	1-5 years
Other	250	250	3-5 years
Total intangible assets	90,030	90,158	
Less accumulated amortization	(62,251)	(58,648)	
Total intangible assets, net	$27,779	$31,510	

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 condensed consolidated statements of operations.

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, 2011, amortization expense related to internally-developed gaming software was $763,000 and $2.4 million, respectively; $739,000 and $1.9 million, respectively, for the three and nine month periods ended June 30, 2010. During the three and nine month periods ended June 30, 2011, the Company had write-offs related to internally-developed gaming software and patents and trademarks of $56,000 and $86,000, compared to write-offs of $43,000 and $234,000, respectively, for the three and nine month periods ended June 30, 2010.

Management reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

7. NOTES RECEIVABLE

The Company’s notes receivable consisted of the following:

	June 30, 2011	September 30, 2010
	(In thousands)	
Notes receivable from development agreements	$28,609	$39,356
Less imputed interest discount reclassed to contract rights	(2,203)	(3,952)
Notes receivable from equipment sales and other	2,405	3,487
Notes receivable, net	28,811	38,891
Less current portion	(14,415)	(13,698)

Notes receivable – non-current	$14,396	$25,193

Notes receivable from development agreements are generated from reimbursable amounts advanced under development agreements. Notes receivable from equipment sales consisted of financial instruments issued by customers for the purchase of player terminals and licenses, and bore interest at 5.25% as of June 30, 2011. All of the Company's notes receivable from equipment sales are collateralized by the related equipment sold, although the value of such equipment, if repossessed, may be less than the note receivable outstanding.

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, 2011 and September 30, 2010, the Company's VAT receivable was $3.1 million and $4.6 million, respectively. The majority of the VAT receivable relates to shipments that occurred in 2006 and 2007.

The Company has received rulings from the Mexican taxing authority for 2006 and 2007 indicating that the Mexican taxing authority has challenged the registration of certain of the Company's transactions that have generated a VAT receivable of approximately $430,000, all of which has been fully reserved. Although the Company has fully reserved this amount, it has formally contested these rulings, and continues to believe it has the necessary evidence for a reasonable defense. However, the final resolution of the contested balances remains uncertain and may adversely affect the carrying value of the receivable and may have an adverse affect on the Company's foreign income tax expense. See Note 14 of the Notes to Consolidated Financial Statements "Commitments and Contingencies."

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The Company's accounts payable and accrued expenses consisted of the following:

	June 30, 2011	September 30, 2010
	(In thousands)	
Trade accounts payable	$7,783	$8,157
Accrued expenses	6,879	5,957
Accrued bonus and salaries	4,251	4,500
Other	3,205	2,887
Accounts payable and accrued expenses	$22,118	$21,501

10. CREDIT AGREEMENT, LONG-TERM DEBT AND CAPITAL LEASES

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

	June 30, 2011	September 30, 2010
	(In thousands)	
Term loan facility	$44,063	$44,625
Less: current portion of long-term debt	(2,963)	(750)
Long-term debt, less current portion	$41,100	$43,875

The Company recently amended its credit agreement on August 3, 2011. As of June 30, 2011, the Company's original credit agreement with Comerica Bank, dated as of April 27, 2007, as amended (the "Original Credit Agreement"), provided that (i) the consolidated total leverage ratio to a ratio be not greater than 1.50 to 1.00; (ii) the total borrowing capacity under the Original Credit Agreement was $90 million, which included a $45 million revolving credit facility and a t$45 million term loan; and (iii) the definition of Consolidated EBITDA was to include any extraordinary, unusual or non-cash non-recurring expenses or losses (including, whether or not otherwise includable as a separate item in the Consolidated Statement of Operations for such period, losses on sales of assets outside the ordinary course of business) of up to $10 million, commencing June 30, 2010. As a result of this definition of Consolidated EBITDA, the Company has historically calculated Adjusted EBITDA because Adjusted EBITDA was the basis for which compliance with a number of covenants were determined in the Original Credit Agreement, including certain ratios.

The calculation of Adjusted EBITDA was as follows:

Consolidated net income or loss
+ Interest expense
+ Depreciation and amortization expense
+ Non-cash expense related to stock compensation
+ Extraordinary, unusual or non-cash non-recurring expenses or losses (up to $10 million)

16

- Non-cash income items
- Extraordinary income or gains

As of June 30, 2011, the Company was in compliance with all loan covenants, the $44.1 million term loan bore interest at 6.5% and the Company had approximately $45.0 million available under the Original Credit Agreement, subject to covenant restrictions.

The Company accounts for amendments or changes to the Original Credit Agreement in accordance with ASC 470-50-40-21, "Modifications and exchanges of line of credit or revolving debt arrangements." Based on the requirements of ASC 470-50-40-21, the Company is amortizing the remaining deferred costs of obtaining the Original Credit Agreement of approximately $565,000 over the remaining term of the Original Credit Agreement.

The Original Credit Agreement was collateralized by substantially all of the Company's assets, and also contained financial covenants as defined in the agreement. The Original Credit Agreement required certain mandatory prepayments be made on the term loan from the net cash proceeds of certain asset sales and condemnation proceedings (in each case to the extent not reinvested, within certain specified time periods, in the replacement or acquisition of property to be used in its businesses). The Original Credit Agreement provided the Company with the ability to finance development agreements and acquisitions and working capital for general corporate purposes. Advances under the revolving credit commitment and the term loan were set to mature on April 27, 2012.

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 "Amended Credit Agreement") to provide the Company a $74 million credit facility which replaced its previous credit facility in its entirety. The Amended Credit Agreement consists of three facilities; an approximately $20.6 million revolving credit facility, a $37 million term loan and an approximately $16.4 million draw-to term loan. The Amended Credit Agreement matures 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. At closing, the Company fully drew down the $37 million term loan, drew down approximately $6.9 million on the revolving credit facility and had no amounts outstanding on the draw-to term loan. The Company's total indebtedness remains unchanged after giving effect to the closing.

The components of the Amended 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 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	3.00	3.50
Revolving credit facility	2.25	2.75
Draw-to term loan	3.00	3.50

Level II pricing will apply to the Amended Credit Agreement until the Company delivers its financial statements for the year ended September 30, 2011.

The Company will be 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(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). Total net funded debt is defined as total funded debt of the Company less 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 Amended Credit Agreement
- Routine capital expenditures, defined as $2.5 million per quarter
- Repurchases or redemptions of capital stock, not funded by the Amended Credit Agreement

17

•Payments and advances under development agreements, not funded by the Amended Credit Agreement

compared to fixed charges, which include interest expense and all regularly scheduled installments of principal. The Company will be required to maintain a fixed charge coverage ratio of 1.2 to 1.0.

In accordance with the provision of ASC Topic 470, "Debt," as of June 30, 2011, the Company adjusted its current portion of long-term debt to reflect the principal amounts paid subsequent to the balance sheet or required to be paid within one year based on the terms of the Amended Credit Agreement.

11. WRITE-OFF, RESERVE, IMPAIRMENT AND SETTLEMENT CHARGES

Write-off, reserve, impairment and settlement charges, other than items written-off in the normal course of business, for the three and nine months periods ended June 30, 2011 and 2010 consisted of the following:

	Three months ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Reserve against note and accounts receivable	—	—	—	2,912
Write-off of install costs and portable buildings in Alabama	—	—	203	332
Mexico customs audit	150	—	150	—
Central system service interruption	484	—	484	—
Write-off of prepaid loan fees	—	381	—	381
Write-off of property and equipment and intangibles	—	—	—	271
Total write-off, reserve, impairment and settlement charges	$634	$381	$837	$3,896

12. INCOME (LOSS) PER COMMON SHARE

Income (loss) per common share is computed in accordance with ASC Topic 260, "Earnings per Share." Presented below is a reconciliation of net income (loss) available to common shareholders and the differences between weighted average common shares outstanding, which are used in computing basic income (loss) per share, and weighted average common and potential shares outstanding, which are used in computing diluted income (loss) per share. Diluted amounts are not included in the computation of diluted loss per share, as such amounts would be antidilutive.

	Three months ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss) available to common shareholders (in thousands)	$2,768	$360	2,574	(9,366)
Weighted average common shares outstanding	27,184,248	27,436,616	27,963,097	27,339,511
Effect of dilutive securities:				
Options	628,606	525,058	646,465	—
Weighted average common and potential shares outstanding	27,812,854	27,961,674	28,609,562	27,339,511
Basic income (loss) per share	$0.10	$0.01	$0.09	$(0.34)

Diluted income (loss) per share	$0.10	$0.01	$0.09	$(0.34)

Certain options to purchase shares of the Company's common stock were not included in the weighted average common and potential shares outstanding in the computation of dilutive earnings per share, due to the antidilutive effects of a net loss:

	Three months ended June 30,		Nine month periods ended June 30,	
	2011	2010	2011	2010
Common Stock Options	3,710,894	3,857,108	3,643,712	6,374,719
Range of exercise price	$3.69 - $18.71	$3.58 - $18.71	$3.50 - $18.71	$3.58 - $18.71

In the three and nine month period ended June 30, 2011, options to purchase approximately 3.7 million and 3.6 million shares of common stock, with exercise prices ranging from $3.69 to $18.71 for the three month period and $3.50 to $18.71 for the nine month period per share respectively, were not included in the computation of dilutive loss per share, due to their antidilutive effect.

In the three and nine month periods ended June 30, 2010, options to purchase approximately 3.9 million and 4.2 million shares of common stock, with exercise prices ranging from $3.58 to $18.71 per share respectively, were not included in the computation of dilutive loss per share, due to the antidilutive effect. In addition, for the nine month period ended June 30, 2010 approximately 2.2 million equivalent shares were not included, due to the loss generated in the period.

13. COMMON STOCK REPURCHASE PROGRAM

On December 3, 2010, the Company announced that its Board of Directors had authorized the repurchase of $15.0 million of its common stock over the next three year period. During the three month period ended June 30, 2011, the Company purchased 667,965 shares of its common stock for approximately $3.7 million at an average cost of $5.59 per share, exclusive of broker fees. During the nine month period ended June 30, 2011, the Company purchased 1.8 million shares of its common stock for approximately $10.0 million at an average cost of $5.48 per share, exclusive of broker fees. At June 30, 2011 approximately $5.0 million remained on the repurchase authorization. The share repurchase program is subject to a 10b5-1 plan, in which purchases may be made from time to time in the open market, subject to certain pricing parameters and the Company's Credit Agreement.

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 or financial condition or cash flows. 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.

Mexico Income Tax Audits

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 periods ended December 31, 2006 and 2007. On November 19, 2010, the Company filed before the taxing authorities an administrative appeal against the resolutions set forth by the taxing authorities in ruling number 500-74-02-04-03-2010-9403, which assessed an income and value added tax deficiency to Multimedia Games de Mexico for the 2007 tax year in the amount of approximately $15.5 million, resulting from presumed omission of income, disallowed deductions, lack of distribution of dividends, value added tax deficiency, penalties and inflation adjustments, as well as an additional employee's profit sharing in the amount of approximately $670,000. The principal basis for the taxing authorities' assessment for the 2007 tax year is that the Company could not substantiate certain asset acquisitions with original shipping manifests, thus the authorities make the assumption that the assets have been sold, resulting in taxable income. The Company has appealed the assessment and believes that it can provide evidence that it still holds the assets at customer locations or within its warehouse in Mexico City, thus supporting it has not sold such assets. Management continues to believe that the Company has a reasonable defense against this assessment. The ultimate assessment will range from $0 to $15.5 million, and management cannot reasonably estimate the amount at this time. Additionally, management does not believe that a loss is probable and thus has not recorded a reserve for this matter, although it is possible that an adverse outcome could have an adverse effect upon our financial condition, operating results or cash flow.

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, 2011 that warrant additional disclosure or accounting considerations.

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

FUTURE EXPECTATIONS AND FORWARD-LOOKING STATEMENTS

This Quarterly Report and the information incorporated herein by reference contain various "forward-looking statements" within the meaning of federal and state securities laws, including those identified or predicated by the words "believes," "anticipates," "expects," "plans," "will," or similar expressions with forward-looking connotations. Such statements are subject to a number of risks and uncertainties that could cause the actual results to differ materially from those projected. Such factors include, but are not limited to, the uncertainties inherent in the outcome of any litigation of the type described in this Quarterly Report under "PART II – Item 1. Legal Proceedings," trends and other expectations described in "PART I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," risk factors disclosed in our earnings and other press releases issued to the public from time to time, in Item 1A of our Annual Report on Form 10-K, as well as those other factors as described under "PART II – Item 1A. Risk Factors" set forth below. Given these uncertainties, readers of this Quarterly Report are cautioned not to place undue reliance upon such statements. 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.

Overview

Multimedia Games designs, manufactures and supplies innovative standalone and networked gaming systems. Our standalone player terminals, server-based systems, video lottery terminals, electronic scratch ticket systems, electronic instant lottery systems, back-office systems and bingo systems are used by Native American and commercial casino operators as well as state lottery operators in the United States and in certain international markets. We have long been a provider of server-based gaming systems known as central determinant and downloadable systems. These systems are used by Native American gaming operator customers in both Class II and Class III settings, by commercial casino customers, by operators of charity and commercial bingo gaming facilities, and by lottery jurisdictions for operation of their video lottery systems.

We continue to derive the majority of our gaming revenues from participation, or revenue share, agreements. Under our participation agreements, we place player terminals and systems, along with our proprietary and other licensed game content, at a customer's facility in return for a share of the revenues that these terminals and systems generate. To a lesser extent, we generate revenue from the sale of gaming units and systems and seek to expand the use of for-sale revenue as we continue to expand into additional gaming jurisdictions and into other segments of the gaming market. We also generate revenues by providing the central determinant system for video lottery terminals installed at racetracks in the State of New York and operated by the New York State Division of the Lottery. We design and develop content for our gaming systems and also offer game themes that we have licensed from others. We currently operate in one business segment.

RESULTS OF OPERATIONS

Three and Nine Month Periods Ended June 30, 2011 Compared to Three and Nine Month Periods Ended June 30, 2010

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,		
	2011	2010	% change	2011	2010	% change
	(in thousands)			(in thousands)		
Revenue						
Gaming Operations						
Participation revenue	$22,104	$21,784	1.5 %	$63,389	63,962	(0.9)%
Lottery	2,453	2,026	21.1 %	6,589	5,686	15.9 %
Gaming Equipment and Systems Sales						
Player terminal and equipment sales	6,264	3,818	64.1 %	15,199	13,000	16.9 %
Systems and Licensing	2,261	1,117	102.4 %	5,836	3,354	74.0 %
Other Revenue	317	331	(4.2)%	1,119	1,477	(24.2)%
Total Revenue	33,399	29,076	14.9 %	92,132	87,479	5.3 %
Costs and Expenses						
Cost of gaming operations revenue	2,364	2,655	(11.0)%	6,575	7,124	(7.7)%
Cost of revenues equipment and systems sales	3,760	2,522	49.1 %	10,386	7,473	39.0 %
Selling, general and administrative	10,498	9,738	7.8 %	31,260	29,178	7.1 %
Write-offs, reserves, impairment and settlement charges	634	381	66.4 %	837	3,896	(78.5)%
Research and development	3,332	3,041	9.6 %	9,726	8,922	9.0 %
Amortization and depreciation	10,207	12,760	(20.0)%	30,527	39,984	(23.7)%
Other income(expense), net	(14)	(231)	93.9 %	361	(600)	160.2 %

	June 30,		
	2011	2010	% change
End-of-period installed player terminal base:			
Oklahoma	7,361	7,041	4.5 %
Mexico	4,338	5,093	(14.8)%
Alabama	121	559	(78.4)%
Other	1,451	1,089	33.2 %
Total participation units	13,271	13,782	(3.7)%

Three Months Ended June 30, 2011, Compared to Three Months Ended June 30, 2010

Total revenues for the three months ended June 30, 2011, were $33.4 million, compared to $29.1 million for the three months ended June 30, 2010, a $4.3 million or 14.9% decrease.

Gaming Operations – Participation revenue

- Oklahoma gaming revenues were $15.4 million in the three months ended June 30, 2011, compared to $15.8 million in the three months ended June 30, 2010, a decrease of $419,000, or 2.7%. Oklahoma's end of period unit count as of June 30, 2011 was 7,361 compared to 7,041 as of June 30, 2010, a 320 unit or 4.5% increase. Gaming revenue in Oklahoma increased compared to prior year with the exception of a one-time adjustment to revenue of $1.2 million recorded in the previous period. This adjustment was recognized on cash collected on a significantly past due receivable. We have experienced a positive trend in revenue for most of our Oklahoma customers throughout 2011.

- Revenues from the Mexico market were $1.8 million in the three months ended June 30, 2011 and $2.1 million during the same period of 2010, a decrease of $300,000 or 14.5%. As of June 30, 2011, we had installed 4,338 player terminals in Mexico compared to 5,093 terminals installed at June 30, 2010. The reduction in the number of units and corresponding reduction in revenue relates to our planned strategy to optimize our deployed capital in Mexico. As part of this strategy we have and expect to continue to remove older games from our customer locations and replace units at a conservative pace to maximize the return on investment.

- Alabama gaming revenues decreased $751,000, or 66.6%, to $377,000 for the three months ended June 30, 2011, compared to $1.1 million for the three months ended 2010. The decrease in revenue relates to the Company's removal of all of its charitable bingo units from the State of Alabama as previously disclosed. Current revenue for Alabama relates to Native American customers within the state.

- Other gaming operations revenue relates to participation revenue from other states, including Washington, Wisconsin, Texas, New York, Minnesota, California, Kansas, Idaho, Mississippi, Louisiana and Rhode Island. Gaming revenue from these states combined was $4.6 million in the three months ended June 30, 2011 compared to $2.8 million during the same period of 2010, a $1.8 million or 63.9%, increase. The end of period participation unit count for these states increased to 1,451 as of June 30, 2011 from 1,089 as of June 30, 2010. The increase in gaming operations revenue was primarily the result of an increase in our installed base of participation games, as well as an increase in back office fees received on player terminals sold in a market which utilizes our back office equipment.

Gaming Operations – Lottery

- Revenues from the New York Lottery system increased $427,000, or 21.1%, to $2.5 million in the three months ended June 30, 2011, from $2.0 million in the three months ended June 30, 2010. Currently, eight of the nine planned racetrack casinos are operating, with approximately 12,500 total terminals. The increase is attributable to increased activity within the New York Lottery system, partially related to the deployment of table games at certain customer sites and increased marketing efforts.

Gaming Equipment and System Sales –Player Terminal and Equipment Sales

- Player terminal and equipment sales were $6.3 million for the three months ended June 30, 2011, and $3.8 million for the three months ended June 30, 2010, a increase of $2.5 million or 65.0%. Player terminal sales for the three months ended June 30, 2011 were $3.7 million on the sale of 251 proprietary units, compared to sales of $2.0 million on the sale of 128 proprietary units for the three month period ended June 30, 2010. Gaming equipment sales were $563,000 for the three month period ended June 30, 2011 compared to $1.5 million in the June 30, 2010 period. Generally, gaming equipment sales include ancillary equipment necessary for the full functionality of the player terminals in a casino. Player terminal and equipment sales also include $2.0 million and $288,000 related to deferred revenue recognized during the three month periods ended June 30, 2011 and 2010, respectively, due to final execution of deliverables. The increase in this quarter for player terminal and equipment sales is attributable to the continued growth in new markets.

Gaming Equipment and System Sales – Systems and Licensing

Systems and licensing sales revenue was $2.2 million for the three months ended June 30, 2011, and $1.1 million for the three months ended June 30, 2010 a $1.1 million, or 99.2%, increase. Systems and licensing revenue for the three months ended June 30, 2011 relates to (i) $1.4 million of systems and game themes sold in prior periods being amortized to

23

revenue from deferred revenue over the contract period; (ii) $672,000 of licenses associated with the player terminal sales during the period; and (iii) $173,000 of license revenue from game conversions. Systems and licensing revenue for the three months ended June 30, 2010 relates to (i) $880,000 of systems and game themes sold in prior periods being recognized from deferred revenue during the period; (ii) $162,000 of licenses associated with the player terminal sales during the period; and (iii) $75,000 of license revenue from game conversions. The increase in this quarter for systems and licensing is attributable, in part, to sale of licenses related to player terminal sales.

Other Revenue

- Other revenue was $317,000 for the three months ended June 30, 2011 and $331,000 for the three months ended June 30, 2010 a $14,000, or 4.2%, decrease. This reduction relates to a decrease in gains on disposed assets from 2010 offset by an increase in maintenance and service contract in 2011.

Cost of Gaming Operations Revenue

- Total cost of gaming operations revenue, which includes royalty and participation fees, decreased $291,000, or 11.0%, to $2.4 million in the three months ended June 30, 2011, from $2.7 million in the three months ended June 30, 2010. Costs of gaming operations revenue decreased primarily due to fewer participation fees paid to third-parties for their leased machines.

Cost of Equipment & System Sales

- Cost of equipment and system sales, which includes cost of system sales, increased $1.2 million, or 49.1%, to $3.8 million in the three months ended June 30, 2011, from $2.5 million in the three months ended June 30, 2010. Costs of revenues related to player terminal sales were $1.8 million and $938,000 for the three months periods ended June 30, 2011 and 2010, respectively. Cost of equipment and system sales for the three months ended June 30, 2011 includes (i) $1.7 million of costs of prior period shipments being amortized from deferred revenue over the contract period and (ii) $223,000 related to the sale of gaming equipment during the period. Cost of equipment and system sales for the three months ended June 30, 2010 includes other cost of revenues of $935,000 of costs of prior period shipments being amortized from deferred revenue over the contract period and $425,000 related to the sale of gaming equipment during the period.

Selling, General and Administrative Expenses

- Selling, general and administrative expenses, or SG&A, increased approximately $760,000, or 7.8%, to $10.5 million for the three months ended June 30, 2011, from $9.7 million in the same period of 2010. This increase was primarily a result of an increase in salaries and wages and employee benefits of $859,000 to retain and attract employees offset by the decrease of professional fees of $174,000.

Write-off, reserve, impairment and settlement charges

- Write-off, reserve, impairment and settlement charges for the three month period ended June 30, 2011 were $634,000 compared to $381,000 for three month period ended June 30, 2010. The charges in the current period consisted of a $484,000 payment for a central system service interruption and $150,000 related to a Mexico customs audit. The write- off, reserve, impariment and settlement charges in the three month period ended June 30, 2010 consisted of $381,000 related to prepaid loan fees associated with the 2010 amendment of our credit agreement.

Research & Development

- Research and development, increased approximately $291,000, or 9.6%, to $3.3 million for the three months ended June 30, 2011, from $3.0 million in the same period of 2010. The primary driver of research and development costs are salaries and wages; thus the increase is attributable to the retention and attraction of employees.

Depreciation and Amortization

• Depreciation expense decreased $2.5 million, or 21.0%, to $9.3 million for the three months ended June 30, 2011 from $11.8 million for the three month period ended June 30, 2010, primarily as a result of a reduction in capital expenditures and assets becoming fully depreciated. Amortization expense decreased $71,000, or 7.5%, to $877,000 for the three months ended June 30, 2011, compared to $948,000 for the same period of 2010, primarily because of capitalized software costs.

24

Other Income and Expense

- Interest income decreased $244,000, or 29.4%, to $586,000 for the three months ended June 30, 2011, from $830,000 in the same period of 2010 due to reduced outstanding note receivable balances. For the three months ended June 30, 2011, The Company recorded imputed interest of $552,000 relating to development agreements with an imputed interest rate range of 5.25% to 9.0%, compared to $778,000 for the same period in 2010.

- Interest expense decreased $199,000, or 19.7%, to $813,000 for the three months ended June 30, 2011, from $1.0 million in the same period of 2010 due to a reduction in the outstanding debt balance.

- Other income (expense) increased $262,000 to other income of $213,000 for the three months ended March 31, 2011, from other expense of $49,000 in the same period of 2010 from a gain on the exchange of used equipment with our third party equipment suppliers, as well as gains or losses incurred on foreign currency transactions primarily related to our Mexico operations.

Income Taxes

- Income tax benefit decreased by $2.4 million to $178,000 for the three months ended June 30, 2011, from $2.6 million in the same period of 2010. The current period change is primarily related to changes in the valuation allowance, foreign taxes and changes in uncertain tax positions. These figures represent effective income tax rates of (6.9)% and 116.0% for the three months ended June 30, 2011 and 2010, respectively. As of June 30, 2011, we have fully reserved for all of our deferred tax assets as we determined that it is more likely than not that we will not be able to realize the benefit of those assets in the foreseeable future.

Nine Months Ended June 30, 2011, Compared to Nine Months Ended June 30, 2010

Total revenues for the nine months ended June 30, 2011, were $92.1 million, compared to $87.5 million for the nine months ended June 30, 2010, a $4.7 million or 5.3% increase.

Gaming Operations – Participation revenue

- Oklahoma gaming revenues were $45.2 million in the nine months ended June 30, 2011, compared to $45.3 million in the nine months ended June 30, 2010, an decrease of $70,000, or 0.2%.

- Revenues from the Mexico market were $5.4 million in the nine months ended June 30, 2011 and $6.5 million during the same period of 2010 a decrease of $1.1 million or 16.5%. The reduction in the number of units and corresponding reduction in revenue relates to our planned strategy to optimize our deployed capital in Mexico. As part of this strategy we have and expect to continue to remove older games from our customer locations and replace units at a conservative pace to maximize the return on investment.

- Alabama gaming revenues decreased $2.9 million, or 72.8%, to $1.1 million for the nine months ended June 30, 2011, compared to $4.0 million for the nine months ended 2010. The decrease in revenue relates to the Company's removal of all of its charitable bingo units from the State of Alabama. Current revenue for Alabama relates to Native American customers within the state.

- Other gaming operations revenue relates to participation revenue from other states, including Washington, Wisconsin, Texas, New York, Minnesota, California, Kansas, Idaho, Mississippi, Louisiana and Rhode Island. Gaming revenue from these states were $11.7 million in the nine months ended June 30, 2011 compared to $8.2 million during the same period of 2010, a $3.5 million or 42.3%, increase. The increase in gaming operation revenue was primarily the result of an increase in the install base of participation gaming, as well as an increase in back office fees received on player terminals sold in a market which utilizes our back office equipment.

Gaming Operations – Lottery

- Revenues from the New York Lottery system increased $903,000, or 15.9%, to $6.6 million in the nine months ended June 30, 2011, from $5.7 million in the nine months ended June 30, 2010. The increase is attributable to increased activity within the New York Lottery system, partially related to the deployment of table games at certain customer sites and increased marketing efforts.

Gaming Equipment and System Sales –Player Terminal and Equipment Sales

Player terminal and equipment sales were $15.2 million for the nine months ended June 30, 2011, and $13.0 million for the nine months ended June 30, 2010, a increase of $2.2 million or 16.9%. Player terminal sales for the nine months ended June 30, 2011 were $10.4 million on the sale of 692 proprietary units, compared to sales of $8.7 million on the sale of 621 proprietary units for the nine month period ended June 30, 2010. Gaming equipment sales were $2.2 million for the nine months ended June 30, 2011 and $3.2 million for the same period in 2010. Generally, gaming equipment sales include ancillary equipment necessary for the full functionality of the player terminals in a casino. Player terminal and equipment sales also include $2.6 million and $1.1 million related to deferred revenue recognized during the nine month periods ended June 30, 2011 and 2010, respectively, due to contract amendments or final execution of deliverables.

Gaming Equipment and System Sales – Systems and Licensing

Systems and licensing sales revenue was $5.8 million for the nine months ended June 30, 2011, and $3.4 million for the nine months ended June 30, 2010 a $2.5 million, or 73.9% increase. Systems and licensing revenue for the nine months ended June 30, 2011 relates to (i) $4.0 million of systems and game themes sold in prior periods being amortized to revenue from deferred revenue over the contract period; (ii) $1.5 million of licenses associated with the player terminal sales during the period; and (iii) $244,000 related to game theme conversions. Systems and licensing revenue for the nine months ended June 30, 2010 relates to (i) $1.0 million from one system sale; (ii) $725,000 of licenses associated with the player terminal sales during the period; (iii) $1.3 million of systems and game themes sold in prior periods being recognized from deferred revenue during the period; and (iv) $281,000 of license revenue from game conversions.

Other Revenue

- Other revenue was $1.1 million for the nine months ended June 30, 2011 and $1.5 million for the nine months ended June 30, 2010 a $358,000 or 24.2% decrease. This reduction relates to a decrease in gains on disposed assets from 2010 offset by an increase in maintenance and service contract revenue in 2011.

Cost of Gaming Operations Revenue

Cost of gaming operations revenue, which includes royalty fees and participation fees, increased $548,000, or 7.7%, to $6.6 million in the nine months ended June 30, 2011, from $7.1 million in the nine months ended June 30, 2010. Costs of gaming operations revenue decreased primarily due to fewer participation fees paid to third-parties for their leased machines.

Cost of Equipment & System Sales

Cost of equipment and system sales, which includes cost of system sales, decreased $2.9 million, or 39.0%, to $10.4 million in the nine months ended June 30, 2011, from $7.5 million in the three months ended June 30, 2010. Costs of revenues related to player terminal sales were $5.1 million and $4.8 million for the three months periods ended June 30, 2011 and 2010, respectively. Cost of revenues for the three months ended June 30, 2011 includes $4.3 million of costs of prior period shipments being amortized from deferred revenue over the contract period,and $954,000 related to the sale of gaming equipment during the period. Cost of revenues for the three months ended June 30, 2010 includes $1.4 million of costs of prior period shipments being amortized from deferred revenue over the contract period and $937,000 related to the sale of gaming equipment during the period.

Selling, General and Administrative Expenses

- Selling, general and administrative expenses, or SG&A, increased approximately $2.1 million, or 7.1%, to $31.3 million for the nine months ended June 30, 2011, from $29.2 million in the same period of 2010. This increase was primarily a result of an increase in salaries and wages and employee benefits of $1.6 million and annual incentive expense of $830,000 to retain and attract employees.

Write-off, reserve, impairment and settlement charges

- Write-off, reserve, impairment and settlement charges for the nine month period ended June 30, 2011 were $837,000 compared to $3.9 million for nine month period ended June 30, 2010. The charges in the current period consisted of a payment of $484,000 for a central system service interruption, $150,000 related to a Mexico customs audit and impairment of install costs at the Alabama locations for $203,000. As previously disclosed, the charges write- off, reserve, impairment and settlement charges in the nine month period ended June 30, 2010 consisted primarily of approximately $2.9 million of reserves for a note receivable within the state of Alabama along with $332,000 for impairment charges and installation costs within the state of Alabama. In addition to the charges related to the Alabama market, during the nine month period ended June 30, 2010 as part of the Company's routine asset analysis, charges of $271,000 were incurred, including the write-off of facility install costs, components, licenses, capitalized software and reserves for bad debts and $381,000 of write off for loan costs from the amendment of our credit facility.

Research & Development

- Research and development, increased approximately $804,000, or 9.0%, to $9.7 million for the nine months ended June 30, 2011, from $8.9 million in the same period of 2010. The primary driver of research and development costs are salaries and wages; thus the increase is attributable to the retention and attraction of employees.

Depreciation and Amortization

- Depreciation expense decreased $9.6 million, or 25.7%, to $27.8 million for the nine months ended June 30, 2011 from $37.4 million for the nine month period ended June 30, 2010, primarily as a result of a reduction in capital expenditures and assets becoming fully depreciated. Amortization expense increased $146,000, or 5.7%, to $2.7 million for the nine months ended June 30, 2011, compared to $2.6 million for the same period of 2010, primarily because of capitalized software costs.

Other Income and Expense

- Interest income decreased $777,000, or 27.8%, to $2.0 million for the nine months ended June 30, 2011, from $2.8 million in the same period of 2010 due to reduced outstanding note receivable balances. For the nine months ended June 30, 2011, we recorded imputed interest of $1.8 million relating to development agreements with an imputed interest rate range of 5.25% to 9.0%, compared to $2.5 million for the same period in 2010.

- Interest expense decreased $1.0 million, or 28.9%, to $2.5 million for the nine months ended June 30, 2011, from $3.5 million in the same period of 2010 due to a reduction in the outstanding debt balance.

- Other income increased $737,000 to $801,000 for the nine months ended March 31, 2011, from $64,000 in the same period of 2010 from a gain on the exchange of used equipment with our third party equipment suppliers, as well as gains or losses incurred on foreign currency transactions primarily related to our Mexico operations.

Income Taxes

- Income tax expense increased by $939,000 to $608,000 for the nine months ended June 30, 2011, from an income tax benefit of $331,000 in the same period of 2010. The current period change is primarily related to changes in the valuation allowance, foreign taxes and changes in uncertain tax positions. These figures represent effective income tax rates of 19.1% and 3.4% for the nine months ended June 30, 2011 and 2010, respectively. As of June 30, 2011, we have fully reserved for all of our deferred tax assets as we have determined that it is more likely than not that we will not be able to realize the benefit of those assets in the foreseeable future.

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.

27

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our condensed 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 the discussion of our Revenue Recognition policy in Note 2 of our 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, 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 clarifying 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 and maintenance. ASU No. 2009-13 replaces and significantly changes the existing separation criteria for multiple-deliverable revenue arrangements by eliminating the criterion for objective and reliable evidence of fair value for the undelivered products or services to determine a unit of accounting. Instead, 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 also eliminates the use of the residual method of allocation and requires, instead, 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 nonsoftware 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, the Company evaluates whether its 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.

Assumptions/Approach Used: The determination estimated selling prices is a subjective measure, where we have made determinations about our ability to price certain aspects of transactions.

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. The allocated value of all of the delivered elements are recognized as revenue, while the allocated value of all undelivered elements is deferred until such items are delivered.

Share-Based Compensation Expense. We recognize compensation expense for all share-based payments granted after October 1, 2005 and prior to but not yet vested as of October 1, 2005, 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 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 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, the Company’s 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, the Company analyzes the composition of its 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, 2010 indicated that we had substantial cash flows to fully recover the carrying value of the entire rental pool. As of June 30, 2011 and September 30, 2010, rental pool assets totaled $43.7 million and $46.3 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 month period ended June 30, 2011, a significant portion of the $10.2 million of depreciation and amortization expense related to assets in the rental pool. If the depreciable life of assets in our rental pool were changed from three years to another period of time, we could incur a materially different amount of depreciation expense during the period.

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 reviewed 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 and in the future, we may by mutual agreement and for consideration, 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, 2011, 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 used 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, 2011, we have recorded a liability of $660,000 associated with uncertain tax positions. During the quarter ended June 30, 2011, management increased the liability related to uncertain tax positions for an additional tax uncertainty as well as an estimated interest amount. The liability related to uncertain tax positions was also reduced during the quarter for a previously recognized uncertainty that has been settled via the company's ongoing federal audit.

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. As of June 30, 2011, management considered the likelihood of realizing the future benefits associated with the Company's existing deductible temporary differences and carryforwards. As a result of this analysis, and based on the current year loss and a cumulative loss in the prior three fiscal years, management determined that it is not more likely than not that the future benefit associated with all of the Company's existing deductible temporary differences and carryforwards in the U.S. and Mexico will be realized. As a result, the Company maintains a valuation allowance against all of its deferred tax assets.

Effect if Different Assumptions Used: Management, along with consultation from an independent public accounting firm used in tax consultation, continually evaluate complicated 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 the tax basis of our property and equipment and leased gaming equipment is largely dependent upon our ability to generate taxable income in the future or carryback losses to prior years with taxable income. 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.

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

As of June 30, 2011, management determined that it is not more likely than not that the future benefit associated with all of the Company's existing deductible temporary differences and carryforwards in the U.S. and Mexico will be realized. As a result, the Company maintains a valuation allowance against all of its deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2011, we had $49.2 million in unrestricted cash and cash equivalents, compared to $21.8 million as of September 30, 2010. During the three month period ended June 30, 2011, we received approximately $18.1 million of tax refunds from the Treasury Department and collected $11.9 million from notes receivable, primarily related to development agreements. Our working capital as of June 30, 2011, was $60.2 million, compared to a working capital of $47.2 million at September 30, 2010. The increase in working capital was primarily the result of an increase in cash collections from notes receivable and an increase in inventory. During the nine month period ended June 30, 2011, we used $26.9 million for capital expenditures of property and equipment compared to $23.9 million for the nine month period ended June 30, 2010. We collected $10.7 million and $13.2 million on development agreements during the nine month periods ended June 30, 2011 and 2010, respectively. In addition, we have $44.0 million outstanding and $30.0 million available for future borrowings under the Amended Credit Agreement, subject to covenant restrictions (see the discussion of our credit agreement in Note 10 and below).

As of June 30, 2011, 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)	$2,963	$7,400	$7,400	$26,300	$44,063
Operating leases(2)	1,486	2,509	1,576	184	5,755
Purchase commitments(3)	19,627	—	—	—	19,627
Total	$24,076	$9,909	$8,976	$26,484	$69,445

(1) Consists of amounts borrowed under the term loan to our Credit Agreement at the Eurodollar rate plus the applicable spread (6.5% as of June 30, 2011).
(2) Consists of operating leases for our facilities and office equipment.
(3) Consists primarily of inventory purchase orders and includes payment for and commitments to purchase third party player terminals and gaming content licenses

During the nine month period ended June 30, 2011, we generated $55.0 million in cash from our operations an increase of $5.8 million, or 11.9%, compared to $49.2 million during the same period of 2010. The increase was primarily the result of a $18.1 million tax refund received in the 2011 period offset by an increase of accounts receivables related to increased gaming equipment and system sales, as well as an increase in inventories to accommodate expected future activity and a decrease of accounts payables.

Cash used in investing activities increased $4.0 million, or 24.6%, to $20.4 million in the nine month period ended June 30, 2011, from $16.4 million in the three month period ended June 30, 2010. The increase was primarily the result of an increase in capital expenditures of $3.0 million, and a decrease in repayments under development agreements of $2.5 million. Additions to property and equipment and leased gaming equipment consisted of the following:

	Nine months ended June 30,	
	2011	2010
	(In thousands)	
Gaming equipment	$21,748	$18,200
Third-party gaming content licenses	3,579	5,377
Other	1,576	370

Total	$26,903	$23,947

Cash used in financing activities decreased by $6.5 million, 45.9%, to $7.7 million in the nine month period ended June 30, 2011, from $14.2 million in the same period of 2010. The decrease was primarily the result of the paydown of the revolving credit commitment under our credit agreement by $15.2 million during the nine month periods ended June 30, 2010, offset by the $10.0 million used for treasury stock purchases in the nine month period ended June 30, 2011.

Our capital expenditures for the next 12 months will depend upon the number of new player terminals that we are able to place into service at new or existing facilities and the actual number of repairs and equipment upgrades to the player terminals that are currently in the field. We have reduced our reliance on third party games and will continue to do so. Though we will purchase third party games in the future we are increasing our proprietary game footprint by offering more games developed by us.

32

Credit Agreement

See discussion of our credit agreement in Note 10 – Credit Agreement, Long-Term Debt and Capital Leases.

The Amended Credit Agreement provides us with the ability to finance development and placement agreements, acquisitions and working capital for general corporate purposes. Advances under the revolving credit commitment, the term loan, and draw-to loan mature on August, 2016, and bear interest at the Eurodollar rate plus the applicable margins, determined by a leverage ratio calculation of net funded debt to EBITDA.

We are currently in compliance with the covenants in the Amended Credit Agreement; however, we cannot be certain that we will be able to achieve our operating objectives for fiscal 2011 and that we will continue to meet our covenants in the Amended Credit Agreement.

If we fail to remain in compliance with the covenants of the Amended 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 Amended Credit Agreement. Alternatively, we may incur significant costs related to obtaining requisite waivers or renegotiation of the Amended 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 (i) general conditions in or affecting the Native American gaming industry, and (ii) 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 "Risk Factors – "Litigation may adversely affect our business, financial condition and results of operations"), 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. See Item 1A.Risk Factors – "Our Credit Agreement contains covenants that limit our ability to finance future operations or capital needs and to engage in other business activities."

Stock Repurchase Authorizations

On December 3, 2010, we announced that our Board of Directors had authorized the repurchase of $15.0 million of our common stock over the next three year period. During the three month period ended June 30, 2011, we purchased 667,965 shares of our common stock for approximately $3.7 million at an average cost of $5.59 per share, exclusive of broker fees. During the nine month period ended June 30, 2011, we purchased 1,824,040 shares of our common stock for approximately $10.0 million at an average cost of $5.48 per share, exclusive of broker fees. At June 30, 2011 we had approximately $5.0 million remaining of our repurchase authorization. The share repurchase program is subject to a 10b5-1 plan, in which purchases may be made from time to time in the open market, subject to certain pricing parameters and the Company's Credit Agreement.

Stock-Based Compensation

At June 30, 2011, we had approximately 5.9 million options to purchase common stock outstanding, with exercise prices ranging from $1.61 to $18.71 per share, of which, approximately 3.5 million of the outstanding options to purchase common stock were exercisable.

During the three months ended June 30, 2011, options to purchase 66,100 shares of common stock were granted at a weighted average exercise price of $5.47 per share, and we issued 200,789 shares of common stock as a result of stock option exercises with a weighted average exercise price of $4.50.

During the nine months ended June 30, 2011, options to purchase 523,700 shares of common stock were granted at a weighted average exercise price of $4.65 per share, and we issued 764,540 shares of common stock as a result of stock option exercises with a weighted average exercise price of $3.83.

At June 30, 2010, we had approximately 5.5 million options to purchase common stock outstanding, with exercise prices ranging from $1.61 to $18.71 per share, of which, approximately 3.7 million of the outstanding options to purchase common stock were exercisable.

During the three months ended June 30, 2010, options to purchase 7,600 shares of common stock were granted at a weighted average exercise price of $4.50 per share, and we issued 15,925 shares of common stock as a result of stock option exercises with a weighted average exercise price of $2.91.

During the nine months ended June 30, 2010, options to purchase 272,500 shares of common stock were granted at a weighted average exercise price of $5.17 per share, and we issued 227,350 shares of common stock as a result of stock option exercises with a weighted average exercise price of $2.07.

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 “Item 1. Condensed Financial Statements – Note 14 - Commitments and Contingencies” and “PART II – Item 1. Legal Proceedings.”

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 regulatory and other similar costs associated with regulatory compliance requirements and the uncertainties present in the highly regulated operating environment in which we conduct our business.

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2011 the Company had no off-balance sheet arrangements.

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, primarily with respect to our operations in Mexico.

Our Amended Credit Agreement provides us with additional liquidity to meet our short-term financing needs, as further described under “Item 1. Condensed Financial Statements, Note 10 Credit Agreement, Long-Term Debt and Capital Leases.” Pursuant to the Amended Credit Agreement, we may currently borrow up to a total of $74 million, of which $44.0 million is outstanding and $30.0 million is available for future borrowings, subject to covenant restrictions.

In connection with the development agreements we enter into with some of our Native American tribal customers, as well as certain other customers, we advance funds for the construction and development of gaming facilities, some of which are required to be repaid. As a result of our adjustable-interest-rate notes payable and fixed-interest-rate-notes receivable described in “Item 1. Condensed Financial Statements, Note 7 Notes Receivable "and "Note 10 Credit Agreement, Long-Term Debt and Capital Leases,” we are subject to market risk with respect to interest rate fluctuations. Any material increase in prevailing interest rates could cause us to incur significantly higher interest expense.

We account for currency translation from our Mexico operations 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. We do not currently manage this exposure with derivative financial instruments.

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 the design and operation of these disclosure controls and procedures were effective as of June 30, 2011.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in management’s evaluation during the second quarter of fiscal 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to various material legal proceedings, which are described in Note 14 Commitments and Contingencies, and incorporated by reference into this item, and in the Company's Annual Report on Form 10-K filed for the year ended September 30, 2010 under the caption "Item 3. Legal Proceedings." We are subject to litigation from time to time in the ordinary course of our business, as well as litigation to which we are not a party that may establish laws that affect our business. Except as discussed in Note 14 of the Notes to Condensed Consolidated Financial Statements included herein, which is incorporated by reference into this item, during the three month period covered by this Quarterly Report on Form 10-Q, the Company has not been named in any new material legal proceedings, and there have been no material developments in the previously reported legal proceedings.

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 nine month periods ended June 30, 2011 and 2010, approximately 57% and 58%, respectively, of our total revenues were from Native American tribes located in Oklahoma, and approximately 42% and 44%, respectively, of our total revenues were from one tribe in that state. Our relationship with that customer is largely governed by multiple development agreements. 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 agreements with that customer.

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, the loss of Oklahoma tribes as customers, including our largest customer, or 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. 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 and 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, charity bingo, lottery, Class II, Class III, commercial slot and international bingo/gaming markets. Additionally, new smaller competitors compete against us in our traditional markets, and these smaller competitors often do not face the same regulatory and/or compliance restraints that we have. The 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. The market is crowded, with International Game Technology, WMS Industries, Inc., Bally Technologies, Inc., Aristocrat Technologies, Inc. and Konami Co. Ltd. comprising the primary competition. 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. As a result of consolidation among the gaming facilities and the recent cutbacks in spending by facility operators due to the downturn in the economy, the level of competition among providers has increased significantly as the number of potential customers has decreased. Other members of our industry may independently develop games similar to our games, and competitors may introduce noncompliant games that unfairly compete in certain markets due to uneven regulatory enforcement policies/actions. 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.

Our exclusive distribution agreements with third party manufacturers have expired, which may impact product performance and overall revenue.

Our exclusive right to be the provider of certain third party products has expired. We plan to continue purchasing equipment in order to maintain our footprint of third party product while concurrently continuing our strategy of transitioning away from a reliance on third party products. Though we do not presently expect a loss of exclusivity to significantly affect the product portfolio we offer our customers, the loss of exclusivity increases the likelihood that as our agreements with these third party manufacturers expires, these manufacturers could place product directly or through other distributors on our customers’ floor. Our loss of exclusivity could have the effect of diluting our win per unit, thus negatively impacting our revenue. Further, if we are unable to continue to provide either this third party product or certain features to enhance our third party product, our product performance could decline.

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 as a result.

Our Mexican operations are subject to a value added tax, or VAT, which has been applied to product shipments originating outside of Mexico. We have an outstanding VAT receivable from the Mexican taxing authority primarily related to VAT levied on product shipments for 2006 and 2007. At June 30, 2011 and September 30, 2010, the Company’s VAT receivable was $3.1 million and $4.6 million, respectively. The Mexican taxing authority has ruled on the aforementioned years and has challenged the registration of certain of our transactions that have generated approximately $430,000 in VAT receivable. Although we have fully reserved the VAT receivable, we have also formally contested these rulings, and we continue to believe we have a reasonable defense. However, 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 issued an assessment of $15.5 million for the 2007 period. We have appealed the assessment and believe we can provide the necessary evidence for a reasonable defense; however, an adverse determination could result in additional foreign income tax expense we currently estimate to be in the range of $0 to $15.5 million, which may adversely affect our financial condition, operating results or cash flow.

We may be subject to penalties as a result of customs audits in Mexico which may adversely affect our financial results.

We may be subject to penalties and assessments from the Servicio de Administracion Tributaria, or SAT, a Mexican governmental taxing entity, as a result of discrepancies on customs records related to the importation of certain machines into Mexico. We could be assessed with additional penalties from our other facilities in Mexico for games imported during 2006 and 2007, which may adversely affect our financial results.

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 and 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, agreements with third parties and make sales in Mexico, which may experience corruption. Our activities in Mexico create the risk of unauthorized payments or offers of payments by one of the employees, consultants, sales agents or distributors of our company, because these parties are not always subject to our control, and accounting standards practiced by our agents in Mexico do not always conform with U.S. GAAP. The Company has recently adopted an enhanced Foreign Corrupt Practices Compliance Policy and is implementing more stringent internal controls in order to prevent and detect FCPA violations; 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 expanded our business into 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; however, we continue to seek growth in the international market and continue to operate in the Mexican market. We now operate approximately 4,300 units in Mexico, primarily across numerous facilities operated by one customer. Both revenue and the number of our units have recently declined in Mexico and there can be no assurances that either revenues will grow or that we will continue supplying new products to that market.
International business is inherently subject to various risks, including, but not limited to:
currency fluctuations;
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;
general government instability;
violence, crime and social unrest;
costs and risks of localizing products for foreign countries;
greater difficulty in safeguarding intellectual property, licensing and other trade restrictions;repatriation of earnings; 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.

Our success in the gaming industry depends in large part on our ability to expand into new and non-Native American markets.

Our expansion into non-Native American gaming activities will present new challenges and risks that could adversely affect our business and results of operations. As we expand into new markets, we expect to encounter business, legal, operational and regulatory uncertainties. As a result, we may encounter 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. The failure to become licensed in one market may have the adverse effect of preventing licensing in other markets or the revocation of licenses we already maintain. Additionally, as we attempt to generate new streams of revenue by selling units to new customers we may have difficulty implementing an effective sales strategy. Our failure to successfully implement an effective sales strategy could cause our future operating results to vary materially from what management has forecast.

New market entry may require us to make changes to our gaming systems to ensure that they comply with applicable regulatory requirements, and may require us to obtain additional licenses. In certain jurisdictions and for certain venues, our ability to enter these markets will depend on effecting changes to existing laws and regulatory regimes. The ability to effect these changes is subject to a great degree of uncertainty and may never be achieved. We may not be successful in entering into other segments of the gaming industry.

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;
- 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.

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 and manufacturing 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 competitor's 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. Therefore, our future success depends upon our ability to design and market 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 and a decrease in demand for our games could also result in an increase in our inventory obsolescence charges.

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 purchases 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.

Our newer products are generally more technologically sophisticated and are of a different form than those we have produced in

39

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, or if we are unable to make upgrades to our production capacity in a timely manner, our business could be negatively impacted.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report financial results or prevent fraud.
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 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 controls, significant losses could occur. Additionally, we plan on moving certain of our warehouses in the coming months and any such move could cause delays and business interruption, which 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, and breaches of the internal control system and compliance requirements. 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.

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, as well as key data points, such as regional statistics. 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 experience loss from operational risk from time to time, including the effects of operational 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.

If we are unable to provide satisfactory customer service, we could lose 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 and training programs. Any material disruption or slowdown in our support systems or inadequate training could make it difficult or impossible to provide adequate customer service and support. If we are unable to continually provide adequate staffing and training for our customer 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.

Furthermore, if we do not meet contract deadlines or specifications, 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. In addition, if we fail to meet the terms specified in those contracts we may not realize their full benefits. 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. Failure to perform under our contracts 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.

We may not realize satisfactory returns on money lent 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, but also have such agreements in place in other jurisdictions, such as Alabama. 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 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 electronic charitable bingo in that State.

Our development and placement efforts and financing activities may result in unforeseen 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.

The failure to maintain controls and processes related to billing and collecting accounts receivable or the deterioration of the financial condition of our customers could negatively impact our business. As a result of our development agreements, the collection of accounts receivable has become a matter of greater significance. While we believe the increased level of these specific receivables has allowed us to grow our business, it has also required direct, additional focus of and involvement by management. Further, and especially due to the current downturn in the economy, some of our customers may not pay accounts receivable when due.

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 recently 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 North America has diminished and machine replacements are 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 could reduce the demand for our products and our future profits.

Our business operations and product offerings are subject to strict regulatory licenses, findings of suitability, registrations, permits and/or approvals.

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 subject to significant federal, state, local, Native American, and foreign regulations. Specifically, our company, our officers, directors, key employees, major shareholders, as well as our business partners and certain suppliers, products, games and systems are subject to licenses, findings of suitability, registrations, permits or approvals necessary for the operation of our gaming activities.

We have received licenses, findings of suitability, registrations, permits or approvals from a number of state, local, Native American, and foreign gaming regulatory authorities. Our Native American tribal customers are empowered to develop their own licensing procedures and requirements. 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.

In addition, we require 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 and expensive. The suspension, revocation, nonrenewal or limitation of any of our licenses would have a material adverse effect on our business operations, financial condition and results of operations. Additionally, 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. If additional gaming laws or regulations are adopted, these regulations could impose restrictions or costs that could have a significant adverse effect on us.

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 renumeration in any form; or
- make any payment to the unsuitable person including any principal, redemption, conversion, exchange or similar payment

While our shareholders recently approved a right to redeem shares of an unsuitable shareholder, a finding of unsuitability could have a material adverse effect on our business. If a gaming authority was 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 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 are not always able to obtain. For example, our largest customer, who accounts for over 42% of our revenue as of June 30, 2011, has not given us a limited 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 its 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. We believe that a number of our competitors have not complied with published regulation restrictions. We have lost, and could continue to lose, market share to competitors who offer games that do not appear to comply with published regulatory restrictions on Class II games and therefore offer features not available in our products. 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.

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

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

On December 3, 2010, we announced that our Board of Directors approved a plan to repurchase up to $15 million of our outstanding common stock over the next three year period. The authorization is subject to a 10b5-1 plan, in which purchases may be made from time to time in the open market, subject to certain pricing parameters. As repurchases under the share repurchase program are subject to certain pricing parameters, 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.

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 key 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 or 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.

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 customer's 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. 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 Amended Credit Agreement.

The carrying value of our assets is dependent upon our ability to successfully deploy games into new or existing markets.

We have player stations not deployed as of June 30, 2011, which are considered part of our rental pool. We may not receive significant advance notice of decisions by our customers that could adversely affect the realizable value of these assets. If the opening of new facilities 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.

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.

We may not be successful in protecting our intellectual property rights, or avoiding claims that we are infringing upon the intellectual property rights of others.

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 does 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, it becomes more and more likely that we will become subject to infringement claims from other parties. 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. We cannot guarantee that our intellectual property will provide us with a competitive advantage or that it will not be circumvented by our competitors.

Some of our products may incorporate open source software. Open source licenses typically mandate that software developed based on source code that is subject to the open source license, or combined in specific ways with such open source software, become subject to the open source license. Open source licenses typically require that source code subject to the license be released or made available to the public. 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 rely on 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, and some of these components, or parts that are required for these components, are produced in Japan. Our business could be disrupted if the manufacturers or this software, or functional equivalents of this software, were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we could be required to either redesign our software to function with alternate third-party software, 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 software 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.

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 competitively superior 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 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.

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. In order to retain our key personnel, we established a retention plan for calendar year 2010; however, such retention plan has elapsed and key employees may depart. If we were to lose the services of any of our senior officers, directors, or any key member of our technology team, and could not find suitable replacements for such persons in a timely manner, it could have a material adverse effect on our business. 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 Amended 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 Amended Credit Agreement may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. Our Amended Credit Agreement requires us to limit capital expenditures to $40 million, with a carry-over to the next fiscal year for any prior fiscal year where actual capital expenditures are less than $40 million, and requires us to maintain a total leverage ratio of no more than 1.50:1.00. While we expect the Amended

Credit Agreement to lower borrowing costs, we will be required to increase our quarterly principal term loan payments to $925,000, which is substantially higher than previous quarterly obligations and our total borrowing capacity has been reduced, which may affect our ability to engage in certain business activities. In addition, the Amended 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 Amended 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 Amended 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.

Current borrowings, as well as potential future financings, may substantially increase our current indebtedness.

No assurance can be given that we will be able to generate the cash flows necessary to permit us to meet our fixed charges and payment obligations with respect to our debt. We could be required to incur additional indebtedness to meet these fixed charges and payment obligations. 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; and
- create competitive disadvantages compared to other companies with lower debt levels.

Any inability to service our fixed charges and payment obligations, or the incurrence of additional debt, would have an adverse effect on our cash flows, 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.

Our financial results vary from quarter to quarter, which could negatively impact our business.
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;
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.

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 obtain new or renewed contracts.

Our games and systems may experience loss based on malfunctions, anomalies 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 or fraudulent activities, which we may be required to pay. We depend on our security precautions to prevent fraud. We 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 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 or fraudulent activities.

The occurrence of malfunctions, anomalies 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.

Systems, network or telecommunications failures may disrupt our business and have an adverse effect on our results of operations.

Any disruption in our network or telecommunications services, adverse weather conditions or other catastrophic events in the areas in which we operate could affect our ability to operate our games, which would result in reduced revenues and customer down time. 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. Despite our implementation of network security measures, our servers are vulnerable to computer viruses and break-ins. Similar disruptions from unauthorized tampering with our computer systems in any such event could have a material adverse effect on our business, operating results and financial condition. 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.
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.

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 or an increase in gasoline prices may lead to our end users having less discretionary income with which to wager. Several major concerns continue to affect general macroeconomics, including the sluggishness of economic recoveries in many developed countries, the broader European debt crisis, inflation in emerging markets, and the impact of the Japanese disaster. This could cause a reduction in our revenues and have a material adverse effect on our operating results. The gaming industry is currently experiencing a period of reduced demand. If, as a result of deteriorating economic conditions, fewer people frequent our customers' facilities, or if amounts spent per person in our customers' facilities are reduced from historical levels, our business could be materially and adversely affected. 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.

The ability of the Board of Directors to issue preferred stock or anti-takeover provisions of Texas law and our governing documents 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.

Other provisions of Texas law and our Articles of Incorporation and 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 Articles of Incorporation and Bylaws include purported limits on shareholder action by written consent in lieu of a meeting and certain procedural requirements governing the nomination of directors by shareholders and shareholder meetings. These provisions could have the effect of delaying or preventing a change in control.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Company [1]

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
December 3, 2010 -December 31, 2010	394,074	$5.13	394,074	$13.0 million
January 1, 2011 -January 31, 2011	345,600	$5.77	345,600	$11.0 million
February 1, 2011 - February 28, 2011	175,132	$5.40	175,132	$10.0 million
March 1, 2011 - March 31, 2011	241,269	$5.41	241,269	$8.7 million
April 1, 2011 - April 30, 2011	296,100	$5.72	296,100	$7.0 million
May 1, 2011 - May 31, 2011	326,265	$5.49	326,265	$5.3 million
June 1, 2011 - June 30, 2011	45,600	$5.46	45,600	$5.0 million
Total	1,824,040	$5.48	1,824,040	

(1) On December 3, 2010, the Company announced that its Board of Directors had authorized the repurchase of $15.0 million of its common stock over the next three year period (the "Share Repurchase Program"). The Share Repurchase Program is subject to a 10b5-1 plan, in which purchases may be made from time to time in the open market, subject to certain pricing parameters. All purchases were made pursuant to the publicly announced Share Repurchase Program.

ITEM 6. EXHIBITS

(a) Exhibits

See Exhibit Index.

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: August 4, 2011	Multimedia Games Holding Company, Inc.
	By: /s/ Adam D. Chibib†
	Adam D. Chibib
	Chief Financial Officer

† Mr. Chibib is signing as an authorized officer and as our Principal Financial Officer and Principal Accounting Officer.

EXHIBIT INDEX

EXHIBIT NO.	TITLE	LOCATION
3.1	Amended and Restated Articles of Incorporation	(1)
3.2	Amendment to Articles of Incorporation	(2)
3.3	Amendment to Articles of Incorporation	(3)
3.4	Fifth Amended and Restated Bylaws	(4)
31.1	Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002	(+)
31.2	Certification of Principal Accounting Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002	(+)
32.1	Certification as required by 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**	(+)

(1) Incorporated by reference to our Form 10-QSB for the quarter ended March 31, 1997, as filed with the Securities and Exchange Commission, or SEC, on May 15, 1997.
(2) Incorporated by reference to our Form 10-Q for the quarter ended December 31, 2003, as filed with the SEC on February 17, 2004.
(3) Incorporated by reference to our Current Report on Form 8-K, as filed with the SEC on April 5, 2011.
(4) Incorporated by reference to our Current Report on Form 8-K, as filed with the SEC on March 23, 2011.
(+) Filed herewith.

** In accordance with Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections and will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act.