

MULTIMEDIA GAMES HOLDING COMPANY, INC.

Form 10-Q

April 30, 2014

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 000-28318

Multimedia Games Holding Company, Inc.

(Exact name of Registrant as specified in its charter)

Texas

74-2611034

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

206 Wild Basin Road South, Building B

Austin, Texas

78746

(Address of principal executive offices)

(Zip Code)

(512) 334-7500

(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

Yes No

As of April 28, 2014, there were 29,612,709 shares of the Registrant's common stock, par value \$0.01 per share, outstanding.

FORWARD LOOKING STATEMENTS

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

Forward-looking statements are not guarantees of performance. You should understand that the factors discussed in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013 could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Actual results could differ materially from those stated or implied by our forward-looking statements, due to risks and uncertainties associated with our business or under different assumptions or conditions. You should not place undue reliance on any of these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

As of March 31, 2014 and September 30, 2013

(In thousands, except shares)

	March 31, 2014 (unaudited)	September 30, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 123,425	\$ 102,632
Accounts receivable, net of allowance for doubtful accounts of \$342 and \$342, respectively	30,791	26,566
Inventory	10,743	12,429
Notes receivable, current	2,640	2,093
Deferred tax asset	7,818	7,818
Prepaid expenses and other	3,623	2,423
Federal and state income tax receivable	—	2,855
Total current assets	179,040	156,816
Property and equipment and leased gaming equipment, net	78,012	77,458
Intangible assets, net	32,384	34,723
Notes receivable, non-current	3,558	4,841
Deferred tax asset, non current	2,690	2,690
Value added tax receivable, net of allowance of \$707 and \$707, respectively	2,899	2,862
Other assets	2,699	2,135
Total assets	\$ 301,282	\$ 281,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 3,700	\$ 3,700
Accounts payable and accrued liabilities	26,702	29,129
Federal income tax payable	1,613	—
Deferred revenue	666	520
Total current liabilities	32,681	33,349
Long-term debt, less current portion	24,050	25,900
Long-term deferred tax liability	12,824	12,824
Other long-term liabilities	463	511
Total liabilities	70,018	72,584
Commitments and contingencies (Note 12)		
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, 38,228,008 and 37,802,950 shares issued, and 29,611,928 and 29,386,870 shares outstanding, respectively	382	378

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Additional paid-in capital	139,152	131,232	
Treasury stock, 8,616,080 and 8,416,080 common shares at cost, respectively	(72,997) (66,886)
Retained earnings	164,727	144,217	
Total stockholders' equity	231,264	208,941	
Total liabilities and stockholders' equity	\$ 301,282	\$ 281,525	

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

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MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended March 31, 2014 and 2013

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
REVENUES:				
Gaming operations	\$37,758	\$33,406	\$71,366	\$63,380
Gaming equipment and system sales	19,860	12,787	44,751	26,791
Other	559	378	1,219	702
Total revenues	58,177	46,571	117,336	90,873
OPERATING COSTS AND EXPENSES:				
Cost of gaming operations revenue ⁽¹⁾	3,715	3,057	7,565	6,245
Cost of equipment and system sales	8,840	5,381	20,665	11,566
Selling, general and administrative expenses	13,602	11,575	27,320	22,918
Research and development	3,716	4,494	8,024	8,674
Amortization and depreciation	10,879	8,143	21,315	16,107
Total operating costs and expenses	40,752	32,650	84,889	65,510
Operating income	17,425	13,921	32,447	25,363
OTHER INCOME (EXPENSE):				
Interest income	88	144	179	314
Interest expense	(231)) (293)) (489)) (589)
Other income (expense)	(3)) 23	12	33
Income before income taxes	17,279	13,795	32,149	25,121
Income tax expense	(6,311)) (4,452)) (11,638)) (8,665)
Net income	\$10,968	\$9,343	\$20,511	\$16,456
Basic income per common share	\$0.37	\$0.33	\$0.69	\$0.58
Diluted income per common share	\$0.35	\$0.31	\$0.66	\$0.54
Shares used in net income per common share:				
Basic	29,681	28,666	29,612	28,568
Diluted	31,024	30,348	30,998	30,252

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

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

MULTIMEDIA GAMES HOLDING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended March 31, 2014 and 2013
(In thousands)
(Unaudited)

	Six Months Ended	
	March 31, 2014	March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$20,511	\$16,456
Adjustments to reconcile net income to cash provided by operating activities:		
Amortization and depreciation	21,315	16,107
Accretion of contract rights	4,827	3,955
Share-based compensation	2,593	1,855
Other non-cash items	64	1,307
Deferred income taxes	—	171
Interest income from imputed interest	(108)	(265)
Changes in operating assets and liabilities	878	(1,336)
Tax benefit from exercise of stock options	(3,461)	(3,188)
NET CASH PROVIDED BY OPERATING ACTIVITIES	46,619	35,062
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment and leased gaming equipment	(17,928)	(25,534)
Acquisition of intangible assets and capitalized labor	(6,136)	(4,070)
Advances under development and placement fee agreements	—	(8,535)
Repayments under development agreements	869	7,555
NET CASH USED IN INVESTING ACTIVITIES	(23,195)	(30,584)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,869	5,583
Tax benefit from exercise of stock options	3,461	3,188
Principal payments of long-term debt	(1,850)	(1,850)
Purchase of treasury stock	(6,111)	(3,668)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(2,631)	3,253
Net increase in cash and cash equivalents	20,793	7,731
Cash and cash equivalents, beginning of period	102,632	73,755
Cash and cash equivalents, end of period	\$123,425	\$81,486
SUPPLEMENTAL CASH FLOW DATA:		
Interest paid	\$231	\$467
Income tax paid	\$3,707	\$2,823
NON-CASH TRANSACTIONS:		
Change in contract rights resulting from imputed interest on development agreement notes receivable	\$25	\$308
Transfer of leased gaming equipment to inventory	\$3,620	\$1,323

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes contained within the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013. The unaudited condensed consolidated financial statements included herein as of March 31, 2014, and for each of the three and six month periods ended March 31, 2014 and 2013, 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 March 31, 2014 are not necessarily indicative of the results which will be realized for the year ending September 30, 2014. 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, 2013 was derived from the audited consolidated financial statements as of that date.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES

For a complete description of our principal accounting policies see Note 2. "Significant Accounting Policies," to our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013. Shown below are certain of our principal accounting policies.

Revenue Recognition

For a description of our revenue recognition accounting policy, see Note 2. "Significant Accounting Policies – Revenue Recognition" to our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013. We have not made any changes in this critical accounting policy during the six months ended March 31, 2014.

Property and Equipment and Leased Gaming Equipment: For a description of our property and equipment and leased gaming equipment accounting policy see Note 2. "Significant Accounting Policies - Property and Equipment and Leased Gaming Equipment," to our Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Accounting Estimates

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

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

Reclassifications

Reclassifications were made to the prior-period financial statements to conform to the current period presentation. A portion of "cost of gaming operations revenue" was reclassified from "research and development" on the condensed consolidated statements of operations. In addition, "tax benefit from exercise of stock options" was reclassified from "changes in operating assets and liabilities" on the condensed consolidated statements of cash flows. These reclassification did not have an impact on the Company's previously reported results of operations, statements of cash flows or earnings per share amounts.

Fair Value Measurements

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

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

The following summarizes the valuation of certain of the Company's financial assets and liabilities as of March 31, 2014 and September 30, 2013, based on the fair value hierarchy:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
March 31, 2014				
Assets:				
Cash Equivalents:				
Money market funds				