

MULTIMEDIA GAMES INC  
Form DEF 14A  
March 02, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Multimedia Games, Inc.**

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(Name of Registrant as Specified in its Charter)

N/A

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(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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March 2, 2006

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Multimedia Games, Inc., to be held on Wednesday, April 5, 2006, at 9:30 a.m. local time, at the offices of our outside legal counsel, DLA Piper Rudnick Gray Cary US LLP, located at 1221 South Mopac Expressway, Suite 400, Austin, Texas, 78746.

Details of the business to be conducted at the annual meeting are given in the attached Notice of Annual Meeting of Shareholders and Proxy Statement for Annual Meeting of Shareholders. A copy of our Annual Report on Form 10-K, including Amendment No. 1 thereto on Form 10-K/A, for our fiscal year ended September 30, 2005 is also enclosed.

Whether or not you attend the annual meeting, it is important that your shares be represented and voted at the meeting. To assure that your vote is counted, please sign, date, and promptly return your proxy card in the enclosed postage-prepaid envelope, or vote your shares as promptly as possible by telephone or by Internet, pursuant to the instructions set forth on the proxy card. If you decide to attend the annual meeting and vote in person, your proxy will be revoked automatically and only your vote at the annual meeting will be counted.

**YOUR SHARES CANNOT BE VOTED UNLESS YOU SIGN AND RETURN THE ENCLOSED PROXY, VOTE YOUR SHARES BY TELEPHONE OR INTERNET, OR ATTEND THE ANNUAL MEETING IN PERSON.**

I sincerely hope that you can find the time to attend this annual meeting. I look forward to seeing you.

Respectfully yours,

Clifton E. Lind,  
President and Chief Executive Officer

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD APRIL 5, 2006**

TO THE STOCKHOLDERS OF MULTIMEDIA GAMES, INC.:

NOTICE IS HEREBY GIVEN that the 2006 Annual Meeting of Shareholders of Multimedia Games, Inc., a Texas corporation, will be held on April 5, 2006, at 9:30 a.m. local time, at the offices of our outside legal counsel, DLA Piper Rudnick Gray Cary US LLP, located at 1221 South Mopac Expressway, Suite 400, Austin, Texas, 78746 for the following purposes:

1. To elect the following nominees as directors to serve for the ensuing year and until their respective successors are elected: Thomas W. Sarnoff, Clifton E. Lind, Michael J. Maples, Robert D. Repass and John M. Winkelman;
  2. To ratify the appointment of BDO Seidman, LLP as our independent auditors for the fiscal year ending September 30, 2006; and
  3. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.
- Each of these items of business is more fully described in the Proxy Statement accompanying this Notice.

Only shareholders of record at the close of business on February 9, 2006 are entitled to notice of, and to vote at, the annual meeting. A complete list of shareholders entitled to vote will be available for inspection by any shareholder, for any purpose relating to the meeting, during normal business hours at our principal executive offices, 206 Wild Basin, Building B, Fourth Floor, Austin, Texas, 78746, for ten days prior to the meeting.

All of you are invited to attend the annual meeting in person. However, to assure that your vote is represented, you are urged to promptly mark, sign and return the enclosed proxy card in the enclosed postage-prepaid envelope, or vote your shares as promptly as possible by telephone or by Internet, pursuant to the instructions set forth on the proxy card. If you receive more than one proxy card because you own shares registered in different names or addresses, you should complete and return each proxy card, or vote by telephone or Internet each such proxy. If you attend the annual meeting in person, and vote in person, your proxy will be revoked automatically and only your vote at the annual meeting will be counted.

By order of the Board of Directors

Clifton E. Lind,  
President and Chief Executive Officer

Austin, Texas

March 2, 2006

**MULTIMEDIA GAMES, INC.**

**206 Wild Basin**

**Building B, Fourth Floor**

**Austin, Texas 78746**

**(512) 334-7500**

**PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held April 5, 2006**

**General**

The accompanying proxy is solicited on behalf of the Board of Directors of Multimedia Games, Inc., a Texas corporation, for use at our annual meeting of shareholders. The annual meeting will be held on Wednesday, April 5, 2006, at 9:30 a.m. local time, at the offices of our outside legal counsel, DLA Piper Rudnick Gray Cary US LLP, located at 1221 South Mopac Expressway, Suite 400, Austin, Texas, 78746.

This Proxy Statement and the enclosed proxy are being mailed on or about March 17, 2006 to all shareholders entitled to vote at the annual meeting.

**Voting by proxy**

You may vote at the annual meeting by completing, signing and returning the enclosed proxy card, or by properly following the instructions for telephone or Internet voting set forth on the proxy card. If not revoked, your proxy will be voted at the annual meeting in accordance with your instructions marked on the proxy card or properly provided by telephone or Internet. If you fail to mark your proxy with instructions, your proxy will be voted as follows:

FOR the election of the five nominees for Director listed in this Proxy Statement; and

FOR the ratification of the appointment of BDO Seidman, LLP, as our independent auditors.

As to any other matter that may be properly brought before the annual meeting, your proxy will be voted as the Board of Directors may recommend. If the Board of Directors makes no recommendation, your proxy will be voted as the proxy holders named in your proxy card deem advisable. As of the date of this Proxy Statement, the Board of Directors does not know of any other matter that is expected to be presented for consideration at the annual meeting.

**Broker non-votes**

A broker non-vote occurs when a broker submits a proxy card with respect to shares held in a fiduciary capacity (typically referred to as being held in street name), but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on nonroutine matters. Routine matters include the election of directors, increases in authorized common stock for general corporate purposes, and ratification of auditors. Nonroutine matters include approvals of and amendments to stock plans.

**You may revoke your proxy and give a new proxy or vote in person**

You may revoke your proxy at any time prior to the voting of that proxy. To revoke a prior proxy, you must do one of the following:

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Execute and return a subsequently dated revised proxy,

Deliver an executed written notice of revocation to the Company addressed to Craig S. Nouis, Inspector of Elections, at our principal executive offices, 206 Wild Basin, Building B, Fourth Floor, Austin, Texas 78746, or

Attend the annual meeting and vote in person at the meeting.

### **Voting and quorum requirements at the meeting**

The specific proposals to be considered and acted upon at the annual meeting are summarized in the accompanying notice and are described in more detail in this Proxy Statement. Only holders of record of shares of our common stock at the close of business on February 9, 2006 (the record date ) are entitled to notice of and to vote at the annual meeting. On the record date, there were 26,971,012 shares of common stock outstanding, all of which are entitled to vote with respect to all matters to be acted upon at the annual meeting. Each stockholder of record as of the record date will have one vote for each share of common stock held by such stockholder.

In order to have a meeting, it is necessary that a quorum be present. A quorum will be present if a majority of the shares of common stock are represented at the annual meeting in person or by proxy. Abstentions and broker non-votes will be counted for purposes of determining the presence or absence of a quorum. Abstentions and broker non-votes will not be counted as having voted either for or against a proposal. If a quorum is present, the affirmative vote of the holders of a majority of the shares present or represented at the meeting and that actually vote for or against the matter is required to approve proposal two. Directors are elected by a plurality vote, meaning that the five nominees receiving the highest number of votes FOR will be elected as Directors.

All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes (i.e., a Proxy submitted by a broker or nominee specifically indicating the lack of discretionary authority to vote on the matter). Abstentions and broker non-votes will be counted as present for purposes of determining a quorum for the transaction of business, but will not be counted for purposes of determining whether each proposal has been approved. If your shares are held in the name of a broker, trust bank or other nominee, you will need to bring a proxy or letter from that broker, trust company or nominee that confirms that you are the beneficial owner of those shares, and that such broker, trust company or nominee has not voted those shares in any proxy submitted by it in connection with the annual meeting.

### **Solicitation of proxies**

We are paying for all our costs incurred with soliciting proxies for the annual meeting. In addition to solicitation by mail, we may use our directors, officers and regular employees to solicit proxies by telephone or otherwise. Our directors, officers and regular employees will not be specifically compensated for these services. We will pay persons holding shares of common stock for the benefit of others, such as nominees, brokerage houses, banks, and other fiduciaries, for the expense of forwarding solicitation materials to such beneficial owners. In addition, we may retain the services of a proxy solicitation firm for assistance in connection with the annual meeting. We estimate that the cost of retaining a proxy solicitation firm in such capacity will not exceed \$30,000.

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**PROPOSAL ONE**
**ELECTION OF DIRECTORS****Nominees and Vote Required to Elect Nominees**

A board of five directors is to be elected at the annual meeting. The five nominees for Director who receive the highest number of affirmative votes of the shares voting shall be elected as directors. You may vote the number of shares of common stock you own for up to five persons. Unless you otherwise instruct by marking your proxy card, the proxy holders will vote the proxies received by them FOR the election of each of the five nominees named below. If any of the nominees is unable or declines to serve as a director at the time of the annual meeting, the proxies will be voted for any nominee designated by our present Board of Directors to fill the vacancy. We have no reason to believe that any of the nominees will be unable or unwilling to serve if elected. The term of office of each person elected as a Director will continue until the next annual meeting of shareholders or until his successor has been elected and qualified.

Our bylaws set the size of our Board of Directors at seven members, or such other number as set from time to time by resolution of our Board of Directors. The Board of Directors is currently set at five directors. Following the annual meeting, the Board of Directors may increase the size of the Board and fill any resulting vacancy or vacancies. If our Board of Directors increases the size of the Board and elects a new director to fill the resulting vacancy, the new director must stand for election at the next year's annual meeting.

The following table sets forth the nominees, their ages, their principal positions and the year in which each became a director. Each of the nominees was recommended for selection by our Nominating and Corporate Governance Committee and approved by the unanimous vote of our independent directors.

<b>Name of Nominee</b>	<b>Age</b>	<b>Positions and Offices</b>	<b>Director Since</b>
Thomas W. Sarnoff <sup>(1)(2)</sup>	79	Director, Chairman of the Board	1997
Clifton E. Lind	59	President, Chief Executive Officer and Director	2000
Michael J. Maples, Sr. <sup>(2)(3)</sup>	63	Director	2004
Robert D. Repass <sup>(2)(3)</sup>	45	Director	2002
John M. Winkelman <sup>(1)(2)(3)</sup>	59	Director	2000

(1) Member of the Compensation Committee (Mr. Sarnoff serves as Chairman of the committee).

(2) Member of the Nominating and Corporate Governance Committee (Mr. Winkelman serves as Chairman of the committee).

(3) Member of the Audit Committee (Mr. Repass serves as Chairman of the committee).

**Thomas W. Sarnoff** has been a director of ours since December 1997. He also served as the Interim Chairman of our Board of Directors from December 2003 until February 2004, at which time he was elected Chairman of the Board. Mr. Sarnoff was employed by the National Broadcasting Company, Inc., or NBC, for over 25 years, holding positions that included Vice President, Production and Business Affairs, Executive Vice President of West Coast activities, and last serving as President of NBC Entertainment Corporation from 1969 to 1977. Since retiring from NBC in 1977, Mr. Sarnoff has been engaged in the production of television and film entertainment, primarily through Sarnoff Entertainment Corporation, which was formed in 1981. Mr. Sarnoff serves on many civic and charitable organizations and is currently Chairman Emeritus and a member of the Board of Directors of the Academy of Television Arts & Sciences Foundation. Mr. Sarnoff received a Bachelor of Science in Electrical Engineering from Stanford University.

**Clifton E. Lind** has been our Chief Executive Officer since February 2003. From June 1998 until February 2003, Mr. Lind was our President and Chief Operating Officer. Mr. Lind has been a director of ours since May 2000. From 1991 to 1993, Mr. Lind was the Executive Vice President, Chief Operating Officer and Chief Financial Officer of KDT Industries, a high-tech manufacturing and services company. From 1994 until January 1997, Mr. Lind was the President and Chief Executive Officer of KDT Industries. From January 1997 until joining us as President, Mr. Lind



was President of Celmark, Inc., an Austin, Texas based company owned by Mr. Lind, which provided management and financial consulting services. Mr. Lind received a Bachelor of Business Administration in Finance and a Master of Business Administration from the University of Texas at Austin.

**Michael J. Maples, Sr.** has been a director of ours since August 2004. Mr. Maples held various management positions at Microsoft Corporation from April 1988 to July 1995, including Executive Vice President of the Worldwide Products Group. As a member of the Office of the President at Microsoft, Mr. Maples reported directly to the Chairman and Chief Software Architect. Previously, he served as Director of Software Strategy for International Business Machines Corp. Mr. Maples also currently serves on the boards of Motive, Inc., a service management software company, Lexmark International, Inc., a laser and inkjet printer company, and Sonic Corp., an operator and franchisor of drive-in restaurants. He is currently a member of the Board of Visitors of the Engineering School at the University of Oklahoma and the College of Engineering Foundation Advisory Council at the University of Texas at Austin. Mr. Maples received a Bachelor of Science degree in Electrical Engineering from the University of Oklahoma and a Master of Business Administration from Oklahoma City University.

**Robert D. Repass** has been a director of ours since July 2002. In addition to his role as a director, Mr. Repass serves as Chairman of our Audit Committee. Mr. Repass was a managing partner in the Austin office of PricewaterhouseCoopers from December 1997 to March 2000, and from March 2000 until December 2001, Mr. Repass was a partner with TL Ventures, a Philadelphia-based venture capital firm. From January 2002 until March 2002, Mr. Repass was a private consultant. Mr. Repass has also served as Vice President and Chief Financial Officer of Motion Computing, Inc., a mobile computing and wireless communication device company, since April 2002. From January 2003 until December, 2005, Mr. Repass served on the Board of Directors and as the Chairman of the Audit Committee of Bindview Development Corporation, a software company. Mr. Repass has over twenty years of public accounting, Securities and Exchange Commission and financial reporting experience. Mr. Repass received a Bachelor of Science in Accounting from Virginia Polytechnic Institute and State University.

**John M. Winkelman** has been a director of ours since August 2000. From 1999 to 2000, Mr. Winkelman was the Chief Executive Officer of Viejas Casino and Turf Club, a casino owned and operated by the Viejas Tribe located in San Diego County, California. From 1989 to 1999, Mr. Winkelman was the Economic Development Advisor to the Viejas Tribal Council. He has worked exclusively with Native American enterprises for the past 20 years, with a primary focus on tribal gaming and related economic development. Mr. Winkelman received a Bachelor of Arts in Laws and a Juris Doctor degree from Thomas Jefferson School of Law, formerly Western State University.

There are no family relationships among any of our executive officers and directors.

#### **Recommendation of the Board of Directors**

**The Board of Directors recommends that the shareholders vote FOR the nominees named above.**

### **CORPORATE GOVERNANCE**

#### **Determination of Independence**

Our Board of Directors has determined that Messrs. Maples, Repass, Sarnoff and Winkelman each qualify as independent directors under Nasdaq Marketplace Rules as currently in effect. Therefore, a majority of the members of our Board of Directors are independent as such term is defined by the Nasdaq. In addition, our Board of Directors has reviewed and considered facts and circumstances relevant to the independence of such members, and has determined that such members are independent.

The independent directors have committed to hold formal meetings, separate from management, which they intend to hold at least four times a year.

#### **Meetings of our Board of Directors**

During the fiscal year ended September 30, 2005, our Board of Directors held 15 meetings. During that period, no director attended fewer than 75% of the aggregate of (i) the total number of meetings of our Board of Directors held during the period for which he was a director and (ii) the total number of meetings held by all committees of our Board of Directors during the period that he served on such committees.

### Committees of our Board of Directors

Our Board of Directors has three standing committees, which are the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. Currently, all of the members of each of our committees are independent, as determined by our Board of Directors and in accordance with Nasdaq Marketplace Rules. In addition, each member of the Audit Committee also satisfies the independence requirements of Rule 10A-3(b)(1) of the SEC rules promulgated under the Securities Exchange Act of 1934, as amended (the 1934 Act).

**Audit Committee.** Our Board of Directors has appointed Messrs. Maples, Repass, and Winkelman as members of the Audit Committee. Mr. Repass serves as the Chairman of the Audit Committee. The Audit Committee operates under a written charter adopted by the Board of Directors, a copy of which is attached as Appendix A to the proxy statement for our 2004 annual meeting of shareholders. A copy of the charter will also be made available free of charge upon written request made to our Director of Corporate Publications, at 206 Wild Basin Road, Building B, Fourth Floor, Austin, Texas 78746. The primary purpose of the Audit Committee is to assist our Board of Directors in monitoring:

The integrity of our financial statements;

The independent auditor's qualifications and independence; and

The performance of our independent auditors.

The Audit Committee is also directly responsible for the appointment, compensation, retention and oversight of the work of our independent auditor, BDO Seidman, LLP, and the preparation of the Audit Committee report, which is included elsewhere in this Proxy Statement. Our independent auditors report directly to the Audit Committee.

The Audit Committee, consistent with the Sarbanes-Oxley Act of 2002 and the rules adopted thereunder, meets with management and the auditors prior to the filing of all periodic reports under the 1934 Act, and prior to the filing of officers' certifications with the SEC to receive information concerning, among other things, significant deficiencies, if any, in the design or operation of our internal controls.

All Audit Committee members are independent as defined and required under the Nasdaq listing standards and the rules and regulations of the SEC. All Audit Committee members also possess the level of financial literacy required by all applicable laws and regulations. The Board has determined that at least one member of the Audit Committee, Mr. Robert D. Repass, is a financial expert, and that Mr. Repass is independent as defined by the rules and regulations of the SEC. Our Audit Committee Charter has been amended to specifically state all of the Audit Committee responsibilities set forth in Rule 10A-3(b)(2), (3), (4) and (5) of the rules and regulations of the SEC under the 1934 Act. The Audit Committee met 23 times during fiscal 2005.

**Compensation Committee.** The Compensation Committee currently comprises Messrs. Sarnoff and Winkelman. Mr. Sarnoff serves as the Chairman of the Compensation Committee. The Compensation Committee is charged with the responsibility of determining (or recommending to the independent members of our Board of Directors to determine) the compensation of all executive officers, including our Chief Executive Officer, and directors.

In June 2004, our Board of Directors approved a Charter of the Compensation Committee, a copy of which is attached as Appendix A to the proxy statement for our 2005 annual meeting of shareholders. A copy of the charter will also be made available free of charge upon written request made to our Director of Corporate Publications, at 206 Wild Basin Road, Building B, Fourth Floor, Austin, Texas 78746. The Compensation Committee met four times during fiscal 2005.

**Nominating and Corporate Governance Committee.** The Nominating and Corporate Governance Committee (the Governance Committee) comprises Messrs. Maples, Repass, Sarnoff and Winkelman. Mr. Winkelman serves as Chairman of the Governance Committee. The primary purpose of the Governance Committee is to identify and recommend to our Board of Directors individuals who are qualified to become members of our Board of Directors and the committees of our Board of Directors. The Governance Committee is also responsible for recommending to the Board of Directors corporate governance principles, providing oversight of the annual performance review process of our Board of Directors and the committees of our Board of Directors and for facilitating interaction between our management and our Board of Directors and committees of our Board of Directors.



All members of the Governance Committee meet the test for independence set forth in the Nasdaq Marketplace Rules. In June 2004, our Board of Directors approved a Charter of the Governance Committee, a copy of which is attached as Appendix B to the proxy statement for our 2005 annual meeting of shareholders. A copy of the charter will also be made available free of charge upon written request made to our Director of Corporate Publications, at 206 Wild Basin Road, Building B, Fourth Floor, Austin, Texas 78746. The Governance Committee met three times during fiscal 2005.

### **Director Nominations**

Pursuant to the Governance Committee Charter, the Governance Committee will consider nominees recommended by shareholders, but has not established procedures for shareholders to submit such recommendations.

Our directors play a critical role in guiding our strategic direction and overseeing the management of our business. The Governance Committee's goal is to assemble a Board of Directors that brings to us a variety of perspectives and skills derived from high quality business and professional experience. Board candidates are considered based upon various criteria, such as their business and professional skills and experiences, personal and professional ethics, integrity and values, long-term commitment to representing the best interests of our shareholders and inquisitive and objective perspective and mature judgment. Additionally, director candidates must have sufficient time available to perform all board and committee responsibilities. When reviewing potential director candidates, the Governance Committee considers the following factors:

The appropriate size of our Board of Directors and its committees;

The perceived needs of our Board of Directors for particular skills, background and business experience;

The skills, background, reputation, and business experience of nominees in relation to the skills, background, reputation, and business experience already possessed by other members of our Board of Directors;

Nominees' independence from management;

Nominees' experience with accounting rules and practices;

Nominees' background with regard to executive compensation;

Applicable regulatory and listing requirements, including independence requirements and legal considerations, such as antitrust compliance;

The benefits of a constructive working relationship among directors; and

The desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members.

The Governance Committee may also consider from time to time, such other factors as it may deem to be in the best interests of our business and shareholders. Other than considering the factors listed above, we have no stated minimum criteria for director nominees. The Governance Committee does, however, believe it appropriate for at least one member of the Board to meet the criteria for an Audit Committee financial expert as defined by SEC rules, and that a majority of the members of the Board meet the definition of independent director under Nasdaq Marketplace Rules.

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The Governance Committee will review the qualifications and backgrounds of the current directors, as well as the overall composition of the Board, and recommend to the full Board the slate of directors to be nominated for election at the annual meeting of shareholders. In the case of incumbent directors whose terms of office are set to expire, the Governance Committee reviews such directors to determine whether to recommend these directors for re-election. In the case of new director candidates, the questions of independence and financial expertise are important to determine what roles can be performed by the candidate, and the Governance Committee determines whether the candidate meets the independence standards set forth in the Sarbanes-Oxley Act of 2002, and SEC and Nasdaq rules, and the level of the candidate's financial expertise. Candidates for nomination as director come to the attention of the Governance Committee from time to time through incumbent directors, management, shareholders or third parties. These candidates may be considered at meetings of the Governance Committee at any point during the year. The evaluation process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of the Governance Committee.

### **Director Attendance at Annual Meetings**

Our policy is that all directors attend our annual meetings of shareholders. We take great care in scheduling meetings at times when all of our directors are available to attend such meetings. At our last annual meeting, which was held on March 2, 2005, all of our then-current directors were in attendance.

### **Shareholders Communications with the Board of Directors**

Shareholders may communicate with our Board of Directors by transmitting correspondence by mail to the address below, or electronically through the Investor Relations Corporate Governance Communications form located on our website, which is [www.multimedialogames.com](http://www.multimedialogames.com).

Multimedia Games, Inc.

ATTN: Chairman of the Board

206 Wild Basin Road

Building B, Fourth Floor

Austin, Texas 78746

The communications will be transmitted to the appropriate leadership of our Board of Directors as soon as practicable, unless our corporate secretary, in consultation with our legal counsel, determines there are safety or security concerns that mitigate against further transmission of the communication. The Board of Directors shall be advised of any communication withheld for safety or security reasons as soon as practicable.

### **Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics that is applicable to all employees. We have also adopted a Code of Ethics for Senior Financial Officers that is applicable to the Chief Executive Officer and all Senior Financial Officers, and that meets the requirements of Item 406 of Regulation S-K as promulgated by the SEC. Our Code of Business Conduct and Ethics, including the Code of Ethics for Senior Financial Officers, is available free of charge by writing to our Director of Corporate Publications at 206 Wild Basin Road, Building B, Fourth Floor, Austin, Texas 78746.

### **Compensation of Directors**

The Company maintains a plan to compensate the non-employee members of its Board of Directors for their services as directors, including serving on committees of the board. Under the Director Compensation Plan, each of the Company's non-employee directors, receives \$37,500 per year, except for the Chairman of the Board, who receives \$75,000 per year. In addition, each non-employee director receives \$500 for each board meeting attended in person and \$250 for each board meeting attended by telephone. Non-employee directors also receive the following amounts for serving on committees of the Board of Directors:

**Audit Committee.** The members of the Audit Committee each receive an additional \$15,000 per year for serving on the Audit Committee, except for the Chairman of the Audit Committee, who receives \$25,000 per year for serving on the Audit Committee as its chairman. Each Audit Committee member also receives \$400 for each Audit Committee meeting attended in person and \$200 for each Audit Committee meeting attended by telephone.

**Nominating and Governance Committee.** The members of the Nominating and Governance Committee each receive an additional \$10,000 per year for serving on the Nominating and Governance Committee, except for the Chairman of the Nominating and Governance Committee, who receives an additional \$10,000 per year for serving on the Nominating and Governance Committee as its chairman. Each Nominating and Governance Committee member also receives \$400 for each Nominating and Governance Committee meeting attended in person and \$200 for each Nominating and Governance Committee meeting attended by telephone.

**Compensation Committee.** The members of the Compensation Committee each receive \$5,000 per year for serving on the Compensation Committee, except for the Chairman of the Compensation Committee, who receives \$10,000 per year for serving on the Compensation Committee as its chairman. Each Compensation Committee member also receives \$400 for each Compensation Committee meeting attended in person and \$200 for each Compensation Committee meeting attended by telephone.

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***Other Committees of the Board of Directors.*** The members of any other committee of the Board of Directors which may be established from time to time each receive an additional \$5,000 per year for serving on any such committee, except for the chairman of any such committee, who receives \$10,000 per year for serving on such committee as its chairman. Each member of any such committee also receives \$400 for each meeting of such committee attended in person and \$200 for each meeting of such committee attended by telephone.

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In general, each sitting outside director will receive an option grant on an annual basis for 10,000 shares of common stock that will vest six months from the date of grant. However, the underlying shares are subject to restrictions which prevent the sale of such shares. These restrictions on the sale of the underlying shares lapse with respect to 25% of the shares annually.

**Compensation Committee Interlocks and Insider Participation in Compensation Decisions**

During the fiscal year ended September 30, 2005, the Compensation Committee of our Board of Directors consisted of Messrs. Sarnoff, Maples, Repass and Winkelman for the period between October 1, 2004 and March 1, 2005, and Messrs. Sarnoff and Mr. Winkelman for the period between March 2, 2005 and September 30, 2005. None of these individuals has served at any time as an officer or employee of the Company or is an executive officer at any company where an executive officer of the Company serves on the Compensation Committee.



## PROPOSAL TWO

### RATIFICATION OF INDEPENDENT PUBLIC ACCOUNTANTS

The Audit Committee of our Board of Directors has selected BDO Seidman, LLP as independent auditors to audit our consolidated financial statements for the fiscal year ending September 30, 2006. BDO Seidman, LLP has acted in such capacity since its appointment in fiscal year 1999. A representative of BDO Seidman, LLP is expected to be present at the annual meeting, with the opportunity to make a statement if the representative desires to do so, and is expected to be available to respond to appropriate questions.

The following table discloses the fees paid to BDO Seidman, LLP for the fiscal years ending September 30, 2005, and September 30, 2004.

	2005	2004
Audit Fees	\$ 1,586,182	\$ 442,269
Audit-Related Fees	29,400	61,200
Tax Fees	92,784	50,565
All Other Fees		

**Audit Fees.** Audit Fees represent fees for professional services provided in connection with the audit of our annual financial statements and of management's assessment and the operating effectiveness of internal control over financial reporting included in our Form 10-K, the quarterly reviews of financial statements included in our Form 10-Q filings and other statutory or regulatory filings.

**Audit-Related Fees.** Audit-Related Fees are fees for assurance and related services that are reasonably related to the attendance at our Audit Committee meetings and our Annual Shareholders Meeting. This category includes fees related to assistance in employee benefit and compensation plan audits, and consulting on financial accounting/reporting standards.

**Tax Fees.** Tax Fees primarily include professional services performed with respect to review of our original and amended tax returns and those of our consolidated subsidiaries, and for state, local and international tax consultation.

**All Other Fees.** All Other Fees are fees for other permissible work performed that does not meet the above category descriptions.

The Audit Committee has adopted procedures for pre-approving all audit and non-audit services provided by BDO Seidman, LLP. These procedures include reviewing a budget for audit and permitted non-audit services. The budget includes a description of, and a budgeted amount for, particular categories of non-audit services that are recurring in nature, and therefore anticipated at the time the budget is submitted. Audit Committee approval is required to exceed the budget amount for a particular category of non-audit services, and to engage the independent auditor for any non-audit services not included in the budget. For both types of pre-approval, the Audit Committee considers whether such services are consistent with the SEC's rules on auditor independence.

The Audit Committee of our Board of Directors has considered whether the provision by BDO Seidman, LLP of non-audit services included in the fees set forth in the table above is compatible with maintaining the independence of BDO Seidman, LLP, and has concluded that that such services are compatible with BDO Seidman, LLP's independence as our auditors.

#### Recommendation of the Board of Directors

**Upon the recommendation of our Audit Committee, our Board of Directors recommends that the shareholders vote FOR the ratification of BDO Seidman, LLP, as our independent public accountants for the fiscal year ended September 30, 2006.**

#### OTHER MATTERS

We know of no other matters to be submitted to the shareholders at the annual meeting. If any other matters properly come before the annual meeting, it is the intention of the persons named in the enclosed proxy to vote the shares they represent as our Board of Directors may recommend, or, in the absence of a recommendation, as such persons deem advisable.

## OWNERSHIP OF SECURITIES

## Security Ownership of Management and Certain Beneficial Owners

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of February 9, 2006 by (i) each person known by us to own beneficially more than 5% of the outstanding shares of our common stock, (ii) each director and director nominee, (iii) each named executive officer, and (iv) all of our directors and executive officers as a group:

Beneficial Owner <sup>(1)</sup>	Number of Shares Beneficially Owned	Percent of Class <sup>(2)</sup>
Royce & Associates, LLC	2,933,438 <sup>(3)</sup>	10.9%
Heartland Advisors, Inc.	1,993,200 <sup>(4)</sup>	7.4%
FMR Corp.	2,802,464 <sup>(5)</sup>	10.4%
Barclays Global Investors, NA.	2,856,392 <sup>(6)</sup>	10.6%
Prentice Capital Management, LP	2,661,733 <sup>(7)</sup>	9.9%
Private Capital Management, L.P.	2,452,433 <sup>(8)</sup>	9.1%
Fred Alger Management, Inc.	990,150 <sup>(9)</sup>	3.7%
Clifton E. Lind	2,051,686 <sup>(10)</sup>	7.3%
Brendan M. O Connor	403,000 <sup>(11)</sup>	1.5%
Gary L. Loebig	393,662 <sup>(12)</sup>	1.4%
Craig S. Nouis	286,250 <sup>(13)</sup>	1.1%
Dirk D. Heinen	250,000 <sup>(14)</sup>	*
John M. Winkelman	220,000 <sup>(15)</sup>	*
Robert D. Repass	172,500 <sup>(16)</sup>	*
Thomas W. Sarnoff	150,000 <sup>(17)</sup>	*
Michael J. Maples, Sr.	47,500 <sup>(18)</sup>	*
All executive officers and directors as a group (13 persons)	4,265,972 <sup>(19)</sup>	14.1%

\* Represents beneficial ownership of less than one percent.

- (1) Unless otherwise noted, the address for all officers and directors is the address of our principal executive offices at 206 Wild Basin, Building B, Fourth Floor, Austin, Texas 78746.
- (2) Percentages of ownership are based on 26,971,012 shares of common stock outstanding on February 9, 2006. Shares of common stock subject to stock options which are currently exercisable or will become exercisable within 60 days after February 9, 2006, are deemed outstanding for computing the percentage for the person or group holding such options, but are not deemed outstanding for computing the percentage for any other person or group.
- (3) Pursuant to a Schedule 13G/A dated January 30, 2006, filed with the SEC, Royce & Associates, LLC reported that as of December 31, 2005 it had sole voting power over 2,933,438 shares and sole dispositive power over 2,933,438 shares and that its address is 1414 Avenue of the Americas, New York, New York 10019.
- (4) Pursuant to a Schedule 13G/A dated February 3, 2006, filed with the SEC, Heartland Advisors, Inc. reported that as of December 31, 2005 it and certain related persons had shared voting power over 1,874,400 shares and shared dispositive power over 1,993,200 shares and that its address is 789 North Water Street, Milwaukee, Wisconsin 53202.
- (5) Pursuant to a Schedule 13G dated June 10, 2005, filed with the SEC, FMR Corp. reported that as of May 31, 2005 it and certain related entities had sole voting power over 26,100 shares and sole dispositive power over 2,802,464 shares and that its address is 82 Devonshire Street, Boston, Massachusetts 02109.
- (6) Pursuant to a Schedule 13G dated February 10, 2006, filed with the SEC, Barclays Global Investors, NA. reported that as of January 31, 2006 it and certain related entities had sole voting power over 2,695,027 shares and sole dispositive power over 2,856,392 shares and that its address was 45 Fremont Street, San Francisco, California 94105.
- (7) Pursuant to a Schedule 13G/A dated February 14, 2006, filed with the SEC, Prentice Capital Management, LP reported that as of December 31, 2005 it and certain related persons had shared voting power over 2,661,733 shares and shared dispositive power over 2,661,733 shares and that its address is 623 Fifth Avenue, 32nd Floor, New York, New York 10022.
- (8) Pursuant to a Schedule 13G dated February 14, 2006, filed with the SEC, Private Capital Management, L.P. reported that as of February 14, 2006 it and certain related entities had shared voting power over 2,452,433 shares and shared dispositive power over 2,452,433 shares and that its address was 8889 Pelican Bay Blvd., Naples, Florida 34108.

- (9) Pursuant to a Schedule 13G dated February 13, 2004, filed with the SEC, Fred Alger Management, Inc. reported that as it and certain related persons had sole voting power over 990,150 shares and sole dispositive power over 990,150 shares and that its address is 111 Fifth Avenue, New York, New York 10003.
- (10) Consists of (i) 994,852 shares owned by Mr. Lind, (ii) options to purchase 977,334 shares that were exercisable within 60 days after February 9, 2006, (iii) 27,000 shares held in various retirement accounts, and (iv) 52,500 shares held by the Lind Family Partnership.
- (11) Consists of options to purchase 403,000 shares that were exercisable within 60 days after February 9, 2006.
- (12) Includes options to purchase 392,662 shares that were exercisable within 60 days after February 9, 2006.
- (13) Consists of options to purchase 286,250 shares that were exercisable within 60 days after February 9, 2006.
- (14) Includes options to purchase 247,500 shares that were exercisable within 60 days after February 9, 2006. Mr. Heinen ceased serving as an executive officer of the Company upon his transition in November 2005 transition Senior Vice President of Operations to Development Executive.
- (15) Consists of options to purchase 220,000 shares that were exercisable within 60 days after February 9, 2006.
- (16) Consists of options to purchase 172,500 shares that were exercisable within 60 days after February 9, 2006.
- (17) Consists of options to purchase 150,000 shares that were exercisable within 60 days after February 9, 2006.
- (18) Consists of options to purchase 47,500 shares that were exercisable within 60 days after February 9, 2006.
- (19) Includes options to purchase 3,183,920 shares that were exercisable within 60 days after February 9, 2006. The reported number of shares does not include shares held by Mr. Heinen, who is a named executive officer for the purposes of this Proxy Statement but who ceased serving as an executive officer in November 2005.

#### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Based solely on a review of Forms 3, 4 and 5 submitted to us during and with respect to fiscal 2005, all statements of beneficial ownership that were required to be filed with the SEC were timely filed, except that each of our outside directors (Messrs. Maples, Repass, Winkelman and Sarnoff) failed to timely file a Form 4 in connection with his receipt on October 3, 2005 of a stock option for the purchase of 10,000 shares of our common stock at an exercise price per share of \$9.56 (the fair market value as of the date of grant).

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**EXECUTIVE COMPENSATION**
**Executive Officers and Directors**

Set forth below is information regarding the executive officers and directors of the Company as of February 9, 2006:

<b>Name</b>	<b>Age</b>	<b>Positions and Offices</b>
Thomas W. Sarnoff <sup>(1)(2)</sup>	78	Director, Chairman of the Board
Clifton E. Lind	59	President, Chief Executive Officer and Director
Craig S. Nouis	43	Vice President and Chief Financial Officer
Gary L. Loebig	57	Executive Vice President of Sales
Brendan M. O Connor	46	Executive Vice President and Chief Technology Officer
Robert F. Lannert	51	Executive Vice President of Class II Gaming
P. Howard Chalmers	62	Senior Vice President of Planning and Corporate Communications
Scott A. Zinnecker	57	Senior Vice President, Human Resources and Central Operations
Randy S. Cieslewicz	34	Vice President of Tax, Budget, and Corporate Compliance
Steven E. Kent	39	Vice President of Quality
Michael J. Maples, Sr. <sup>(2)(3)</sup>	63	Director
Robert D. Repass <sup>(2)(3)</sup>	45	Director
John M. Winkelman <sup>(1)(2)(3)</sup>	59	Director

(1) Member of the compensation committee.

(2) Member of the nominating and corporate governance committee.

(3) Member of the audit committee.

**Clifton E. Lind** has been our Chief Executive Officer since February 2003. From June 1998 until February 2003, Mr. Lind was our President and Chief Operating Officer. Mr. Lind has been a director of ours since May 2000. From 1991 to 1993, Mr. Lind was the Executive Vice President, Chief Operating Officer and Chief Financial Officer of KDT Industries, a high-tech manufacturing and services company. From 1994 until January 1997, Mr. Lind was the President and Chief Executive Officer of KDT Industries. From January 1997 until joining us as President, Mr. Lind was President of Celmark, Inc., an Austin, Texas based company owned by Mr. Lind, which provided management and financial consulting services. Mr. Lind received a Bachelor of Business Administration in Finance and a Master of Business Administration from the University of Texas at Austin.

**Craig S. Nouis** joined us as Vice President and Chief Financial Officer in August 2001. From January 2001 until August 2001, Mr. Nouis served as an independent contractor to us and others, providing financial and accounting services. For more than five years prior to that, Mr. Nouis was employed by BDO Seidman, LLP, last serving as audit partner. Mr. Nouis received a Bachelor of Science in Accounting from the University of Houston at Clear Lake.

**Gary L. Loebig** became our Vice President for New Market Development upon joining us in December 1998 and was elected Executive Vice President of Sales in December 2001. From 1984 until joining us in December 1998, Mr. Loebig was employed by Stuart Entertainment, doing business as Bingo King, a publicly traded company engaged in the manufacture and sale of bingo cards and related equipment and products. With Bingo King, Mr. Loebig served in various capacities, beginning as general sales manager and last serving as Senior Vice President - Market and Product Development. Mr. Loebig received both Bachelor and Master of Business Administration degrees from the University of Iowa.

**Brendan M. O Connor** became our Senior Vice President and Chief Technical Officer upon joining us in January 2002 and was elected Executive Vice President in July 2003. From January 2001 until January 2002, Mr. O Connor worked as a technical consultant for us. From 1995 until January 2001, Mr. O Connor was a Senior Software Architect at The Boeing Company's Space and Communications Group, where he led a team that developed software for satellite ground systems. He has over 18 years of experience developing software systems. Mr. O Connor received a Bachelor of Arts in Chemistry from New College of Florida and Master of Arts in Chemistry and Master of Science in Aerospace Engineering degrees from the University of Texas at Austin.

**Robert F. Lannert** was our Vice President of Computer and Data Processing Operations from August 1997 until being elected Executive Vice President of Class II Gaming in December 2001. Mr. Lannert has been employed by

us since June 1996, and was supervisor of computer and data processing operations until being elected Vice President of Class II Gaming. From 1988 until August 1995, Mr. Lannert was Director of Data Processing for DeBartolo Racing at Remington Park in Oklahoma City, and from August 1995 until joining us, Mr. Lannert was Vice President of Operations for Spector Entertainment Group. Mr. Lannert received a Bachelor of Science in Political Science from Arizona State University.

**P. Howard Chalmers** joined us in February 2003 as Senior Vice President of Planning and Corporate Communications, after serving as a management consultant to us for several years. From 1978 to 2003, he served as President and Principal Consultant for Chalmers & Co., where he gained a national reputation for providing strategic planning and organizational development support to a broad range of both entrepreneurial companies and nonprofit organizations. Mr. Chalmers is active in civic and charitable organizations, having served as Chairman of the Board of KLRU, Austin's public television station, and as President and Chief Executive Officer of the Lance Armstrong Foundation. He was instrumental in creating *Austin City Limits*, currently the longest-running music program on television, and served as Executive Producer of that program in its early years. Mr. Chalmers received a Bachelor of Arts from the University of Texas at Austin.

**Scott A. Zinnecker** joined us in January 2003 as Vice President of Human Resources. In July of 2005, he became our Senior Vice President of Human Resources and Central Operations. Mr. Zinnecker, who has over 30 years of human resources experience, came to us from Activant Solutions, where he was Corporate Vice President of Human Resources from 1997 to 2003. From November 1986 to August 1997, he was Vice President of Human Resources for KDT Industries, Inc., and its spin-off company, Arrowsmith Technologies, Inc. Mr. Zinnecker received a Bachelor of Science in Sociology from Texas A&M University.

**Randy S. Cieslewicz** joined us in March 2002 as Vice President of Tax and Budget. In July of 2005, he became our Vice President of Tax, Budget, and Corporate Compliance. Mr. Cieslewicz worked in public accounting from 1994 through 2002, last serving as a Tax Manager for BDO Seidman, LLP. Mr. Cieslewicz received his Bachelor of Business Administration in Accounting from Sam Houston State University.

**Steven E. Kent** joined us in January 1998 as Director of Software Quality Control and Lottery System Specification, and was elected Vice President of Quality in July of 2005. From 1992 until January of 1998, he was employed by the Texas Lottery Commission in various capacities, including Director of Systems Administration. Mr. Kent was employed by the Missouri Lottery Commission as a Data Processing Investigator in the Security department from 1989 to 1992.

**For information regarding our non-employee directors (Messrs. Sarnoff, Repass, Maples and Winkelman), see Proposal One Election of Directors.**

## Summary of Cash and Certain Other Compensation

The following table sets forth information concerning the annual compensation for our Chief Executive Officer and for each of our four most highly compensated executive officers other than our Chief Executive Officer whose salary and bonus exceeded \$100,000 for services rendered to us during the fiscal years ended September 30, 2005, September 30, 2004 and September 30, 2003 (the named executive officers):

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Other Annual Compensation (\$)	Long-Term Compensation	
		Salary(\$)	Bonus(\$)		Securities Underlying Options(#)	All Other Compensation (\$)
Clifton E. Lind President and Chief Executive Officer	2005	\$ 467,553	\$ 17,000			
	2004	437,885	25,000			
	2003	373,384	250,000		440,000	
Gary L. Loebig Executive Vice President of Sales	2005	182,885	34,000		50,000	
	2004	153,000	37,500			
	2003	157,618	150,000			
Brendan M. O Connor Executive Vice President and Chief Technical Officer	2005	183,066	21,250		40,000	
	2004	158,006	37,500			
	2003	157,875	150,000			
Craig S. Nous Vice President and Chief Financial Officer	2005	220,615	17,000		25,000	
	2004	209,694	27,500			
	2003	208,788	150,000			
Dirk D. Heinen <sup>(1)</sup> Development Executive	2005	191,020	11,900		30,000	
	2004	181,731	27,500			
	2003	130,038	75,000		40,000	59,808

(1) Mr. Heinen served as the Company's Senior Vice President of Operations during fiscal year 2005. In November, 2005 Mr. Heinen ceased serving in such capacity and since such date has served as a Development Executive with the Company, a part-time, non-executive officer position. Prior to joining our Company in January 2003, Mr. Heinen rendered services to the Company during our 2003 fiscal year pursuant to a consulting arrangement. The listed amount of Mr. Heinen's other compensation for fiscal year 2003 reflects \$59,808 paid under this arrangement.

### Stock Options

The following table sets forth information concerning the grants of stock options during the fiscal year ended September 30, 2005 to the named executive officers identified in the Summary Compensation Table of the Executive Compensation section of this Proxy Statement.

### STOCK OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of	Individual Grants <sup>(1)</sup> % of	Exercise	Expiration	Option Term <sup>(2)</sup>		Annual Rates of Stock Price Appreciation for
					5% (\$)	10% (\$)	
							Potential Realizable Value at Assumed

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	Securities	Total Options	Price Per	Date		
	Underlying	Granted to	Share			
	Options	Employees in	(\$/Sh)			
	Granted(#)	Fiscal Year				
Clifton E. Lind						
Gary L. Loebig	50,000	4.92%	\$ 7.61	3/25/2015	\$ 239,294	\$ 606,419
Brendan M. O Connor	40,000	3.93%	7.61	3/25/2015	191,436	485,135
Craig S. Nousis	25,000	2.46%	7.61	3/25/2015	119,647	303,210
Dirk D. Heinen <sup>(3)</sup>	30,000	2.95%	7.61	3/25/2015	143,579	363,851

- (1) The stock options granted to the named executive officers contain accelerated vesting provisions in the event of a change of control. For more information see Employment and Change of Control Agreements Stock Option Agreements below.
- (2) The 5% and 10% assumed compounded annual rates of stock price appreciation are in accordance with the potential gains and are net of exercise price, but before taxes associated with the exercise rules of the SEC. These amounts and assumed

rates of appreciation do not represent our estimate of future stock price. Actual gains, if any, on stock option exercises will be dependent on future performance of the common stock and overall market conditions as well as the option holder's continued employment throughout the vesting period. There can be no assurance that the actual stock price appreciation over the ten-year option term will be at the assumed 5% and 10% levels or at any other defined level.

- (3) Mr. Heinen ceased serving as an executive officer of the Company upon his transition in November 2005 from Senior Vice President of Operations to Development Executive.

#### Aggregated Option Exercises and Fiscal Year-End Values

The following table sets forth information regarding the exercise of stock options during the fiscal year ended September 30, 2005 and the unexercised stock options held at September 30, 2005 by the named executive officers.

#### AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

Name	Shares		Number of Securities		Value of Unexercised	
	Acquired on	Value	Underlying Unexercised		In-the-Money Options	
			Options at Fiscal Year End(#)	at Fiscal Year End(\$) <sup>(1)</sup>	Exercisable	Unexercisable
	Exercise(#)	Realized(\$)	Exercisable	Unexercisable	Exercisable	Unexercisable
Clifton E. Lind	105,232	\$ 573,541	877,334	200,000	\$ 4,225,724	\$ 86,000
Gary L. Loebig			381,162	50,000	2,717,088	105,000
Brendan M. O Connor			393,000	40,000	3,235,517	84,000
Craig S. Nouis			280,000	25,000	1,664,124	52,500
Dirk D. Heinen <sup>(2)</sup>			240,000	30,000		63,000

- (1) Based on the difference between the closing price of the Company's common stock at fiscal year end (\$9.71 per share) and the exercise price of the options.
- (2) Mr. Heinen ceased serving as an executive officer of the Company upon his transition in November 2005 from Senior Vice President of Operations to Development Executive.

#### Employment and Change of Control Agreements

In general, we do not have employment agreements with our executive officers.

**Employment Agreement with Clifton E. Lind.** On September 9, 2004, we entered into an Executive Employment Agreement with Clifton E. Lind to provide for Mr. Lind to continue as the Company's President and Chief Executive Officer, and setting forth certain terms of Mr. Lind's employment. The agreement provides that Mr. Lind will receive an annual base salary of \$450,000 and will be eligible to receive incentive compensation on an annual basis as determined by the Compensation Committee of our Board of Directors, based upon a performance review of Mr. Lind performed by the Compensation Committee. The agreement also specifies that Mr. Lind will be eligible to receive all customary and usual fringe and other benefits generally available to our executive officers, in accordance with the terms and conditions of any applicable benefit plans, including group health, life and disability insurance and participation in Multimedia's 401(k) plan.

In the event that Mr. Lind's employment is terminated without cause or Mr. Lind terminates his employment for good reason (as defined in the agreement), subject to Mr. Lind's observance of the surviving terms of the agreement and Mr. Lind's execution of a full general release, Mr. Lind will receive (i) his base salary for 18 months, in equal monthly installments, following the date of termination, (ii) one year of his projected incentive compensation, and (iii) full acceleration of the vesting of any unexercised or unvested stock options that he holds. In the event that Mr. Lind voluntarily resigns as President and Chief Executive Officer, for any reason, Mr. Lind will receive his base salary for 18 months, in equal monthly installments, following the date of termination and one year of his projected incentive compensation. Upon the termination of Mr. Lind's employment for any reason, Mr. Lind will be prohibited from (i) working for, providing assistance to, or investing in (subject to certain exceptions) any business that is competitive with that of the Company for a period of 18 months, (ii) soliciting any of our customers, prospective customers or disparaging the Company for a period of 12 months, (iii) soliciting any of our employees for a period of 18 months, and (iv) disclosing any of our confidential information.



**Stock Option Agreements.** Almost all of the stock option agreements with each of our named executive officers and other executive officers and key employees provide for full vesting of all unvested shares in the event of a change of control of the Company. Change of control, as defined in the agreements, means any merger or consolidation, sale of assets, dissolution or the acquisition by any person of at least 51% of our voting stock.

**Stock Option Agreements with Clifton E. Lind.** In addition to the change of control vesting described above, our stock option agreements with Clifton E. Lind provide for full vesting of all unvested shares subject to his option upon the termination by Mr. Lind of his employment for good reason. Good reason, as defined in the agreement, relates to a diminution of Mr. Lind's salary, position or responsibilities within our company. Our agreements with Mr. Lind also provide for acceleration of vesting as to all unvested shares that would otherwise vest through the second anniversary of our termination of Mr. Lind without cause, or Mr. Lind's termination of his employment without good reason.

#### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Indemnification, Insurance and Limitation of Liability.** Our bylaws require us to indemnify our directors and executive officers to the fullest extent permitted by Texas law. We have entered into indemnification agreements with all of our directors, and have purchased directors' and officers' liability insurance. In addition, our articles of incorporation limit the personal liability of the members of our Board of Directors for breaches by the directors of their fiduciary duties.

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## COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

**Overview and Philosophy.** The Compensation Committee of our Board of Directors regularly reviews compensation packages for all executive officers. These include the following major compensation elements: base salaries, annual cash incentives, stock options and various benefit plans. Our Compensation Committee currently comprises Messrs. Maples, Repass, Sarnoff and Winkelman, who are all independent directors, as required by Nasdaq Marketplace Rules.

It is the Compensation Committee's objective that executive compensation be directly related to the achievement of our planned goals, and to enhancement of corporate and shareholder values. The Compensation Committee recognizes that the industry sector in which we operate is both highly competitive and is challenged by significant legal and regulatory uncertainty. In addition, the technology-related skills of most of our technology team have applications to many other industry sectors besides our own. As a result, there is substantial demand for qualified, experienced executive personnel of the type we need to achieve our objectives. The Compensation Committee considers it crucial that we be assured of retaining and rewarding our top caliber executives, who are essential to the attainment of our ambitious long-term goals.

For these reasons, the Compensation Committee believes our executive compensation arrangements must remain competitive with those offered by other companies of similar size, scope, performance levels and complexity of operations.

**Stock Options.** The Compensation Committee believes that:

The grant of stock options to executive employees has been an essential ingredient to enabling us to achieve our growth and attain our business objectives;

We regularly face significant legal, regulatory and competitive challenges to our business that require extraordinary commitments of time and expertise by our employees; and

Our employees have met these challenges and made these extraordinary commitments, primarily because of the reward and incentive provided by the historical and prospective grant of stock options.

When recommending the grant of stock options, the Compensation Committee considers the number and terms of options previously granted, industry practices, the optionee's level of responsibility, and assumed potential stock value in the future. The exercise prices of stock options granted to executive officers are equal to the market value of the stock on the date of grant. Therefore, stock options are intended to align the long-term interests of our executive officers with those of our shareholders, as our executive officers will receive no benefit from the grant of stock options, which represent a significant part of each executive officer's total compensation, unless there occurs an increase in the value of the common shares held by our shareholders.

**Cash Compensation.** The Compensation Committee believes that annual cash compensation should be paid commensurate with attained performance. Accordingly, our executive cash compensation consists of a fixed base compensation (salary) and variable incentive compensation (annual bonus), where the annual bonus can potentially be the largest component of cash compensation only if the executive and the company are able to meet or exceed performance related goals that, if attained, are expected to result in an increase in overall company and shareholder value. Base salaries for executive officers are established considering a number of factors, including the executive's individual performance and measurable contribution to our success, and pay levels of similar positions with comparable companies in the industry. The Compensation Committee supports management's compensation philosophy of moderate fixed compensation for elements such as base salary with the potential for significant bonuses for achieving performance related goals. Base salary and bonus award decisions are made as part of our structured annual review process.

**Benefits.** We provide benefits to the named executive officers that are generally available to all of our employees. For fiscal year 2005, the amount of executive level benefits and prerequisites, as determined in accordance with the rules of the SEC relating to executive compensation, did not exceed 10% of total salary and bonus of the applicable executive officer.

**Chief Executive Officer Compensation.** The base salary for the 2005 fiscal year of Mr. Lind, our President and Chief Executive Officer, was determined in accordance with the terms of Mr. Lind's Executive Employment Agreement, a summary of which is set forth in this Proxy Statement under the heading "Employment and Change of Control Agreements - Employment Agreement with Clifton E. Lind." In addition to his base salary, the Committee awarded Mr. Lind a modest bonus of \$17,000 during fiscal year 2005. The Committee balanced Mr. Lind's success with the Company's ongoing efforts to diversify its business and enter new markets with consideration of the Company's stock price performance and earnings results during the year.



The other components of Mr. Lind's compensation for the 2005 fiscal year were based on the same criteria described above with respect to executive officers generally.

Mr. Lind participated to a limited extent in the Committee's deliberations on his compensation. His participation generally consisted of answering questions from the Committee regarding his goals and objectives for the year, and his observations on the peer group to which his compensation is compared. Mr. Lind, however, was not present during those portions of the Compensation Committee's meetings where his performance was evaluated and compensation determined.

It is the opinion of the Compensation Committee that these compensation policies and structures provide the necessary discipline to properly align our corporate economic performance and the interest of our shareholders with progressive and competitive executive compensation practices in an equitable manner.

**Compliance with Internal Revenue Code Section 162(m).** Section 162(m) of the Internal Revenue Code restricts deductibility of executive compensation paid to our chief executive officer and each of the four other most highly compensated executive officers holding office at the end of any year to the extent such compensation exceeds \$1,000,000 for any of such officers in any year and does not qualify for an exception under Section 162(m) or related regulations. The Committee's policy is to qualify its executive compensation for deductibility under applicable tax laws to the extent practicable. Income related to stock options granted under our equity compensation plans generally qualifies for an exemption from these restrictions imposed by Section 162(m). In the future, the Committee will continue to evaluate the advisability of qualifying its executive compensation for full deductibility.

**COMPENSATION COMMITTEE**

Thomas W. Sarnoff, Chairman  
John M. Winkelman

**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee oversees Multimedia Games, Inc.'s accounting and financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including internal control systems. The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Accounting Oversight Board (United States) and for issuing a report thereon. Additionally, the independent registered public accounting firm is responsible for performing an independent audit of management's assessment and the operating effectiveness of internal controls over financial reporting and for issuing a report thereon.

Based on the Audit Committee's:

Review of our audited financial statements for the fiscal year ended September 30, 2005;

Discussions with our management regarding our audited financial statements;

Receipt of written disclosures and the letter from our independent registered public accounting firm required by Independence Standards Board Standard No. 1;

Discussions with our independent registered public accounting firm regarding the firm's independence and the matters required to be discussed by the Statement on Auditing Standards 61 and 90; and

Other matters the Audit Committee deemed relevant and appropriate, the Audit Committee recommended to our Board of Directors that the audited financial statements as of and for the fiscal year ended September 30, 2005 be included in our Annual Report on Form 10-K for our fiscal year ended September 30, 2005 for filing with the SEC.

**AUDIT COMMITTEE**

Robert D. Repass, Chairman  
Michael J. Maples, Sr.  
John M. Winkelman

**STOCK PRICE PERFORMANCE GRAPH**

The following graph compares a shareholder's cumulative total return for the last five fiscal years, assuming \$100 invested at September 30, 2000, as if such amounts had been invested in: (a) our common stock, (b) the stocks included in the Nasdaq Composite Index and (c) stock in a selected peer group index (the Peer Group). The Peer Group consists of Progressive Gaming International Corp. (formerly Mikohn Gaming Corp.), International Game Technology, WMS Industries, Inc., Alliance Gaming Corp., and Shuffle Master, Inc.

**COMPARISON OF CUMULATIVE TOTAL RETURN****AMONG MULTIMEDIA GAMES, INC.,****THE NASDAQ COMPOSITE INDEX,****AND THE SELECTED PEER GROUP**

<b>Date</b>	<b>MGAM</b>	<b>Peer Group</b>	<b>Nasdaq Composite Index</b>
September 30, 2000	\$ 100	\$ 100	\$ 100
September 30, 2001	257	228	41
September 30, 2002	478	422	32
September 30, 2003	883	583	49
September 30, 2004	752	565	52
September 30, 2005	471	441	34

Graph assumes that \$100 was invested in our common stock and in each index at the market close on September 30, 2000 and that all dividends have been reinvested. No cash dividends have been declared on our common stock. Shareholder returns over the indicated period should not be considered indicative of future shareholder returns.

**CERTAIN INFORMATION NOT DEEMED INCORPORATED BY REFERENCE**

**IN ANY SECURITIES AND EXCHANGE COMMISSION FILINGS**

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 ( Securities Act ) or the 1934 Act that might incorporate all or portions of future filings, including this proxy statement, with the SEC, in whole or in part, the Report of the Compensation Committee of our Board of Directors, the Report of the Audit Committee of our Board of Directors and the Stock Performance Graph contained in this proxy statement shall not be deemed to be incorporated by reference into any such filing or deemed to be soliciting material or filed with the SEC under the Securities Act or the 1934 Act, or subject to the liabilities of Section 18 of the 1934 Act.

**DEADLINE FOR RECEIPT OF SHAREHOLDER PROPOSALS**

**2007 ANNUAL MEETING**

Shareholders who, in accordance with SEC Rule 14a-8, wish to present proposals for inclusion in our proxy statement and form of proxy for our next annual meeting must submit their proposals so that they are received by us at our principal executive offices, addressed to our Corporate Secretary, no later than November 2, 2006. Shareholder proposals not submitted for inclusion in next year's proxy statement and form of proxy, but instead sought to be presented directly at our next annual meeting of shareholders, may be brought before the annual meeting so long as we receive notice of the proposal, addressed to the Corporate Secretary, at our principal executive offices, no later than January 21, 2007. If received after January 21, 2007 such proposals will be considered untimely. Unless we receive notice in the manner and by the dates specified above, the proxy holders shall have discretionary authority to vote for or against any such proposal presented at our next annual meeting of stockholders.

**ANNUAL REPORT**

A copy of our annual report for the 2005 fiscal year, including Amendment No. 1 thereto, has been mailed concurrently with this Proxy Statement to all shareholders entitled to notice of and to vote at the annual meeting. The annual report, including the amendment thereto, is not incorporated into this proxy statement and is not considered proxy solicitation material.

**FORM 10-K**

We filed an annual report on Form 10-K with the SEC on December 14, 2005 (the Original Report ) and an Amendment No. 1 on Form 10-K/A to the Original Report with the SEC on January 30, 2006. Shareholders may obtain a copy of our annual report, including the amendment thereto, without charge, by writing to our Corporate Secretary at our principal executive offices, located at 206 Wild Basin Rd, Bldg B, Suite 400, Austin, Texas 78746

By order of the Board of Directors

Clifton E. Lind  
Chief Executive Officer and President

Austin, Texas

March 2, 2006

**THE PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**OF MULTIMEDIA GAMES, INC.**

**206 Wild Basin**

**Building B, Fourth Floor**

**Austin, Texas 78746**

**(512) 334-7500**

**PROXY FOR 2006 ANNUAL MEETING OF SHAREHOLDERS, APRIL 5, 2006**

The undersigned shareholder(s) of Multimedia Games, Inc., a Texas corporation, hereby revokes all previous proxies, acknowledges receipt of the Notice of Annual Meeting of Shareholders and Proxy Statement, each dated March 2, 2006, and hereby appoints Thomas W. Sarnoff and Clifton E. Lind, and each of them, the Proxies and Attorneys-in-Fact of the undersigned, with full power of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the 2006 Annual Meeting of Shareholders of Multimedia Games, Inc. to be held on April 5, 2006 at 9:30 a.m., local time, at the offices of our outside legal counsel, DLA Piper Rudnick Gray Cary US LLP, located at 1221 South Mopac Expressway, Suite 400, Austin, Texas, 78746, and at any adjournment or postponement thereof, and to vote all shares of common stock which the undersigned would be entitled to vote if personally present on any of the following matters and with discretionary authority as to any and all other matters that may properly come before the meeting.

1. Election of Directors.

- .. FOR ALL NOMINEES
- .. WITHHOLD AUTHORITY FOR ALL NOMINEES
- .. FOR ALL EXCEPT

Nominees:

Thomas W. Sarnoff

(See instructions below)

Clifton E. Lind

Michael J. Maples, Sr.

Robert D. Repass

John M. Winkelman

**IF YOU WISH TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, MARK FOR ALL EXCEPT AND STRIKE A LINE THROUGH THAT NOMINEE'S NAME IN THE LIST ABOVE.**

2. To ratify the appointment of BDO Seidman, LLP as the independent public accountants of the Multimedia Games, Inc. for the fiscal year ending September 30, 2006.

- .. FOR
- .. AGAINST
- .. ABSTAIN

3. To transact such other business as may properly come before the meeting or any postponements or adjournments thereof, including approving any such postponement or adjournment, if necessary.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF ALL THE DIRECTOR NOMINEES LISTED ABOVE AND IN FAVOR OF THE APPOINTMENT OF BDO SEIDMAN, LLP.**



**THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE SPECIFICATIONS MADE. IF NO SPECIFICATION IS MADE, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR EACH OF THE ABOVE PERSONS AND PROPOSALS, AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING AS THE BOARD OF DIRECTORS MAY RECOMMEND OR, IN THE ABSENCE OF A RECOMMENDATION, AS THE PROXY HOLDERS DEEM ADVISABLE.**

Date:

Signature:

NOTE: This proxy should be marked, dated and signed by each shareholder exactly as such shareholder's name appears hereon, and returned promptly in the enclosed envelope. When shares are held jointly, each holder should sign. When signing as an executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If the signer is a partnership, please sign in the partnership name by authorized person.

TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, PLEASE MARK, SIGN AND DATE THIS PROXY AND RETURN IT AS PROMPTLY AS POSSIBLE.

Please check, if you intend to attend the Annual Shareholders Meeting: "

Proxy Card 2