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## **FORM 10-K**

**Gaming Partners International CORP - GPIC**

**Filed: March 23, 2018 (period: December 31, 2017)**

Annual report with a comprehensive overview of the company

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

FORM 10-K

(Mark One)

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

**For the fiscal year ended December 31, 2017**

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 0-23588



**GAMING PARTNERS INTERNATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

**NEVADA**  
(State of incorporation)

**88-0310433**  
(I.R.S. Employer Identification No.)

**3945 West Cheyenne Avenue, North Las Vegas, Nevada 89032**  
(Address of principal executive offices)

Registrant's telephone number, including area code: **(702) 384-2425**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value \$0.01 per share**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2017 (the last business day of the most recently completed second fiscal quarter) based on the closing price as reported on the NASDAQ Global Market of \$11.93 per share: \$47,024,195.

As of March 15, 2018, there were 7,932,794 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

**Documents Incorporated by Reference:**

Portions of our definitive Proxy Statement relating to our 2018 annual stockholders' meeting are incorporated herein by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission no later than 120 days after conclusion of the registrant's year ended December 31, 2017.

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## PART I

### Statement Regarding Forward-Looking Statements

*This report on Form 10-K contains forward-looking statements regarding future events or our future financial and operational performance. Forward-looking statements include statements regarding markets for our products; trends in net sales, gross profits and estimated expense levels; liquidity and anticipated cash needs and availability; and any statement that contains the words “anticipate,” “believe,” “plan,” “forecast,” “foresee,” “estimate,” “project,” “expect,” “seek,” “target,” “intend,” “goal” and other similar expressions. The forward-looking statements included in this report reflect our current expectations and beliefs, and we do not undertake publicly to update or revise these statements, even if experience or future changes make it clear that any projected results expressed in this annual report or future quarterly reports to stockholders, press releases or company statements will not be realized. In addition, the inclusion of any statement in this report does not constitute an admission by us that the events or circumstances described in such statement are material. Furthermore, we wish to caution and advise readers that these statements are based on assumptions that may not materialize and may involve risks and uncertainties, many of which are beyond our control, that could cause actual events or performance to differ materially from those contained or implied in these forward-looking statements. These risks and uncertainties include the business and economic risks described in Item 1A. Risk Factors.*

Unless otherwise indicated or unless the context requires otherwise, all references in this document to “GPIC,” “our company,” “we,” “us,” “our,” “the Company,” and similar names refer to Gaming Partners International Corporation and its subsidiaries.

#### Item 1. Business

##### Company Overview

Gaming Partners International Corporation, a Nevada corporation, is headquartered in North Las Vegas, Nevada. The Company was formed in 2002 through a reverse merger between Paul-Son Gaming and Bourgogne et Grasset. GPIC has three operating subsidiaries: Gaming Partners International USA, Inc. (GPI USA) (including GPI Mexicana S.A. de C.V. (GPI Mexicana), our maquiladora manufacturing operation in Mexico, and GPI USA Blue Springs, our manufacturing facility in Missouri); Gaming Partners International SAS (GPI SAS); and Gaming Partners International Asia Limited (GPI Asia). Our subsidiaries have the following distribution and product focus:

- GPI USA sells in the United States, Canada, the Caribbean, and Latin America. GPI USA sells our full product line, with most of the products manufactured in either San Luis Rio Colorado, Mexico, or Blue Springs, Missouri. The remainder is either manufactured in France or purchased from United States vendors. We warehouse inventory in San Luis, Arizona; Blue Springs, Missouri; and North Las Vegas, Nevada. We have sales offices in North Las Vegas, Nevada; Atlantic City, New Jersey; Gulfport, Mississippi; and Blue Springs, Missouri.
- GPI SAS sells primarily in Europe and Africa out of its office in Beaune, France. GPI SAS predominantly sells casino currencies, including both American-style, known as chips, and European-style, known as plaques and jetons. Most of the products sold by GPI SAS are manufactured in France, with the remainder manufactured in Mexico.
- GPI Asia, located in Macau S.A.R., China, distributes our full product line in the Asia-Pacific region. GPI Asia also sells table layouts that it manufactures in Macau S.A.R.

We are one of the gaming industry’s leading manufacturers and suppliers of casino table game equipment. We custom manufacture and supply casino currency, with multiple security and design options, playing cards, table layouts, gaming furniture, table accessories, dice, and roulette wheels. We also provide multiple radio frequency identification (RFID) technologies including low- and high-frequency RFID casino currency, RFID solutions for casino currency (consisting of low- and high-frequency RFID casino currency readers, antennas, casino currency authentication software, casino currency inventory software applications, and software maintenance services). Our products and services are used with casino table games such as blackjack, poker, baccarat, craps, and roulette. Our products fall into two categories – non-consumable and consumable. Non-consumable products consist of casino currencies, gaming furniture, and RFID solutions. These products typically have a useful life of several years or longer. Sales of non-consumables are typically driven by casino openings, expansions, and re-brandings, as well as replacement in the normal course of business. Consumable products consist of playing cards, table layouts, dice, and table accessories. These products each have a useful life that ranges from several hours for playing cards and dice to several months for layouts. Casinos tend to buy these products annually if not more frequently.

The majority of our products are specifically designed and produced to meet our customers' requirements, whether they are related to use, branding, aesthetic appeal, security, or anti-counterfeiting features. We believe our ability to produce products with a variety of styles and features, in combination with years of reliable delivery, enhance our competitive position. Our strategy is to be the exclusive supplier of table game products for every new casino. Through this strategy, revenues are generated both from the initial sale and replenishment of consumable products.

### Product Segment

We operate in one operating segment – casino table game products. See Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 13. Geographic and Product Line Information, for information concerning our product lines.

### Products

The following table describes our products by product line and sales (dollars in thousands) for the years ended December 31:

	2017		2016		Year-to-Year Change	
Casino currency without RFID	\$ 14,754	18.3%	\$ 15,698	19.1%	\$ (944)	(6.0)%
Casino currency with RFID	18,041	22.4%	16,123	19.6%	1,918	11.9%
Total casino currency	32,795	40.7%	31,821	38.7%	974	3.1%
Playing cards	24,864	30.8%	26,708	32.5%	(1,844)	(6.9)%
Table accessories and other products	6,802	8.4%	6,639	8.1%	163	2.5%
Table layouts	5,315	6.6%	5,259	6.4%	56	1.1%
Gaming furniture	3,126	3.9%	2,645	3.2%	481	18.2%
Dice	2,791	3.5%	2,859	3.5%	(68)	(2.4)%
RFID solutions	1,623	2.0%	3,000	3.7%	(1,377)	(45.9)%
Shipping	3,286	4.1%	3,208	3.9%	78	2.4%
Total	\$ 80,602	100.0%	\$ 82,139	100.0%	\$ (1,537)	(1.9)%

### Casino Currency

Casino currency, used at table games, can be divided into two basic styles: American-style, known as chips, and European-style, known as plaques and jetons. Our broad range of currency products enables us to meet our customers' preferences and specifications, including branding, aesthetic, security, and anti-counterfeiting features. Because casino currency, like real currency, is subject to counterfeiting, we incorporate a variety of custom security and anti-counterfeit features, such as ultra-violet (UV) pigments, UV inks, four-color process UV markings, infrared pigments, DNA type taggants, gold lace materials, alpha dots, customized rings, number serializations, security films, holograms, and micro-text. Manufacturing techniques used to thwart counterfeiting include creation of intricate multi-shot molds and complex currency designs to increase replication difficulty. Our most sophisticated anti-counterfeiting feature is an RFID device, based on a microchip that can be embedded in our casino currency making it counterfeit resistant when combined with our chip inventory, validation and tracking system (CIS).

Typically, a casino will order all of its casino currency, including replacement currency, from a single supplier. Accordingly, we strive to become the original casino currency supplier to a casino upon its opening, thereby enhancing our opportunity to receive additional sales when the casino places replacement orders or grows. A new casino order will typically include at least five to seven distinct currency denominations, colors, and styles, ranging in denominations from \$0.50 to in excess of \$1 million. Our selling price depends on customization, quantities, design, and security features. We hold the leading worldwide market share in casino currency.

*American style Casino Currency.* American-style casino currency, commonly known as chips, is used worldwide. There are currently four main manufacturing technologies used to produce this type of currency: injection molding, thermo-compression molding, laser cut-thermo-compression, and sublimation. We produce casino currency using all four of these methods. We sell American-style casino currency under the Paulson<sup>®</sup>, Bud Jones<sup>®</sup>, Blue Chip<sup>®</sup> (BC<sup>®</sup>), Dolphin<sup>®</sup> and Bourgogne et Grasset<sup>®</sup> (BG<sup>®</sup>) brand names.

- *Injection-molded Currency.* Our BG<sup>®</sup>, Dolphin<sup>®</sup> and Bud Jones<sup>®</sup> Plastic injection-molded casino currencies are made with several injection-molded colors, typically with a central metal piece for added weight, and printed decals. There are several standard diameters and a wide range of design and color combinations. Various security features are used to make the currencies counterfeit resistant, including using various UV, 3-in-1 UV and infra-red pigments, and other ELP pigments, specialty inks, security taggants, holograms, 4C-UV, security film, serialization, Datatrace, DNA security powders (that can be read with specialized equipment), electromagnetic (EM) detection and RFID technology. Under our BG<sup>®</sup> brand, our Premium Chip allows for the design and full customization of the chip mold. Our new BG<sup>®</sup> V-Series chip line was developed using an exclusive and highly durable injection material formula. The V-Series utilizes a proprietary and interchangeable mold system that offers customers a broader range of mold designs and the option to select between two decal sizes. All V-Series chips come standard with ChipShield, an anti-fungal agent that keeps chips cleaner. All four color shot V-Series chips come standard with an exclusive state-of-the-art hidden infra-red security feature.
- *Thermo-compression Molded Currency.* Our Paulson<sup>®</sup> and Blue Chip<sup>®</sup> (BC<sup>®</sup>) thermo-compression molded casino currencies are manufactured using a proprietary formulation. Printed decals or “inlays” are incorporated in the product during the compression steps. Customized designs, security, and identifying features can be incorporated into the currencies. These casino currencies have a unique feel when stacked and are commonly referred to as “clay chips.” Various security features are used to make this currency counterfeit resistant, including UV and infra-red pigments, UV and 4C-UV inks, alphas, custom molds, serialization, EM detection and RFID technology. Our Paulson<sup>®</sup> Premium Chip has an outer décor ring made from the same materials used in our European-style plaques and jetons. The addition of the décor ring gives customers the option of adding additional security features.
- *Laser Cut Thermo-compression Currency.* Our BG<sup>®</sup> J3 jeton is a laser cut, thermo-compression casino currency that features intricate edge insert designs, two decal size options and the most advanced technology in security features. The J3 is referred to as a hybrid chip as it combines European-style plaque and jeton materials and aesthetic features with the feel and handling properties of American-style casino currency. Security features such as RFID technology, EM detection, microdots, gold lace, serialization, 4C-UV, UV Electro Luminescent and infra-red pigments, holograms and security film can be added to make the currency more counterfeit resistant.
- *Sublimation Currency.* Sublimation currency, manufactured under the BG<sup>®</sup> brand, is made from an injection-molded white disc. Currency designs are transferred to the disc using a technology called “pad printing.” This technology permits simultaneous printing of the face and the edge of the chip. We refer to this casino currency style as “Full Face.” The security feature available is infra-red pigments.

*European-style Casino Currency.* Plaques and jetons are European-style casino currency. Plaques can be rectangular, square, oval, or custom-shaped and are available in various sizes. Jetons are circular with multiple diameters. Plaques and jetons are made of laminated cellulose acetate with a large range of colors, shapes, security, and anti-counterfeit components such as UV pigment, number serialization, laser pigment, gold lace material, EM detection, and RFID technology. We offer a number of standard designs as well as highly customized designs. GPI SAS created its original product line in 1925 and has held the leading position in this market since that time.

*RFID Casino Currency.* Since 1996, we have been at the forefront of applying RFID technology to casino currency. Our RFID products include RFID-embedded currency and readers and antennas for the cage, gaming tables, and chip vaults. All of these RFID products can be integrated with our CIS software to provide authentication and inventory management across multiple locations within a casino. RFID enables quick and accurate accounting and verification of casino currency, either one at a time or in larger quantities, whether in stacks, racks, chip trays, or cabinets. When integrated with CIS, casino management can access, in real-time, a number of custom reports.

Use of RFID in gaming started with our low-frequency (125 KHz) devices used primarily for security. In 2006, we developed and introduced a faster, high-frequency (13.56 MHz) line of RFID products which offered a higher level of security and had much faster reading speeds, allowing tracking of currency movements within a casino. In 2015, after three years of research and development, we introduced SMART, a proprietary, high-performance RFID technology. Using a new generation of RFID tags and antennas, SMART operates at even faster chip-reading speeds. The SMART reader generates less heat and requires a smaller footprint.

*RFID Solutions.* RFID Solutions are customized applications running on CIS which integrate into a casino's system to authenticate and track casino currency. We also provide associated hardware support and maintenance services.

### ***Playing Cards***

We manufacture and sell two brands (Paulson<sup>®</sup> and Gemaco<sup>®</sup>) of paper casino playing cards in single, multi-deck, and pre-shuffled packages. In addition, we offer plastic cards under our Gemaco<sup>®</sup> brand. Based on casino controls and practices, playing cards are typically replaced at least every 24 hours, excluding plastic cards which are used for longer periods. A casino typically enters into a one- or two-year purchase commitment with a supplier to supply its playing cards at regular intervals, generally monthly or quarterly. Our playing cards are compatible with all types of playing card shufflers.

### ***Table Layouts***

All live gaming tables are covered with a layout printed with artwork particular to each specific game and casino preference. To give our customers maximum design flexibility, we have developed an extensive range of layouts using wool, polyester, and our proprietary Paulson<sup>®</sup> FX material. Printing processes include screen printing, custom hand painting, and full graphic sublimation. All graphic designs are developed in house by our art department.

### ***Dice***

We manufacture and sell various brands of dice. We offer a variety of options, including size, finish type, customer logo, color, serialization, and security features. In a busy casino, a stick of dice (two and one-half pair) does not generally remain in play for more than one day.

### ***Gaming Furniture***

We sell a complete line of table gaming furniture, including tables, bases, and pit podiums. Our hand-crafted gaming furniture is custom built based on a casino's designs and specifications. Our tables can be designed to incorporate all of our accessories and RFID systems as well as all third-party products, such as playing card shufflers, playing card readers, monitors, and bill validators. Table gaming furniture is typically sold in combination with table layouts and table accessories.

### ***Table Accessories and Other Products***

We offer a full line of table game accessories, including table displays, roulette reader boards, foot rails, chip trays, drop boxes, shoes, cut cards, dice sticks, lammers, markers and buttons. We manufacture many of these products and have aligned with a number of third-party vendors, such as TECHART, to provide products that we don't manufacture. We are a licensed manufacturer of roulette wheels and sell them worldwide.

### ***Backlog***

At December 31, 2017, our backlog of signed orders to be delivered during 2018 was \$21.0 million, consisting of \$16.6 million for GPI USA, \$3.8 million for GPI Asia, and \$0.6 million for GPI SAS. At December 31, 2016, our backlog of signed orders to be delivered in 2017 was \$17.4 million, consisting of \$9.0 million for GPI USA, \$8.1 million for GPI Asia, and \$0.3 million for GPI SAS.

### ***Sales, Advertising, and Promotion***

We maintain a global sales network. In the Americas, we primarily sell through our U.S.-based sales force. In Europe and Africa, we primarily sell through our Beaune, France-based sales force. In the Asia-Pacific region, we distribute products through our Macau S.A.R., China-based sales force. In a few cases, when direct selling was not feasible because of local conditions, we have entered into agreements with carefully selected local sales agents or distributors. However, we always maintain direct contact with the customer to ensure that our brand integrity is not compromised.

We have product design teams in the United States, Mexico, France, and Asia to support our sales staff to develop artwork for custom products and to assist our manufacturing operations.

We actively promote our product lines, service capabilities, and product quality in a variety of traditional and emerging media. We place advertising in trade publications, support frequent editorial inquiries, and participate in major casino industry trade shows, including the Global Gaming Expo (G2E) events in Las Vegas, Nevada, and Macau S.A.R., China, the International Casino Exhibition (ICE) show in London, England, and the National Indian Gaming Association (NIGA) show held in various cities in the United States. We also promote our products through periodic direct-to-customer print and e-mail campaigns and maintain a website dedicated to providing our customers with an easy-to-use product information resource.

We also market casino-specific themed products in certain gaming jurisdictions, including casino currency, table layouts, playing cards, and dice. These themed products are used by our customers to promote special events, including sporting events, conventions, holidays, casino anniversaries, and premier entertainment events.

## **Competition**

We compete in all of our product lines with several table game equipment suppliers. Competitive advantages include our reputation, manufacturing capability, sales staff experience, distribution channels, regulatory and jurisdictional licenses, financial strength, and being one of the few companies to provide a complete line of casino table game products.

*Casino Currency.* Major competitors in casino currency are ICON Poker, Inc., based in the United States; Abbiati Casino Equipment Snc., based in Italy; and Matsui Gaming Machine Co., Ltd., based in Japan. Competitive advantages are region-specific products, reputation, quality, widespread jurisdictional licensing, emphasis on and the range of available currency lines and currency security features and configurable custom design options, understanding of players' and dealers' preferences, and value.

*RFID Solutions.* Primary competitive advantages for RFID solutions sales are experience with tracking of the complete supply chain of our RFID currency, exclusive licenses and patents, CIS software, product quality, security, service, and value.

*Playing Cards.* Major competitors in playing cards are The United States Playing Card Company based in the United States, and the Angel Playing Cards Co., Ltd, based in Japan. Competitive advantages are card characteristics such as finish, weight of paper, and snap memory, as well as manufacturing capacity, multiple brands, jurisdictional licensing, security, quality control, delivery reliability and value.

*Table Layouts.* Primary competitors in table layouts are Midwest Game Supply Co., and Rye Park Gaming LLC, both based in the United States, TCS/John Huxley based in the United Kingdom, and Matsui Gaming Machine Co., Ltd., and Colorway, based in Asia. In addition, there are numerous small, regional competitors. Competitive advantages are variety of layout materials offered, fabric quality and durability, quick delivery, printing processes, and value.

*Table Gaming Furniture.* Principal competitors in table gaming furniture are USA Gaming Supply Inc., Avalon Gaming Inc., and MSC Gaming Inc., all based in the United States, TCS/John Huxley, based in the United Kingdom, Abbiati Casino Equipment Snc., based in Italy, and regional wood shops. Primary competitive advantages are the ability to design and produce a wide range of gaming furniture, short production lead times, craftsmanship, jurisdictional approvals, and value.

*Table Accessories and Other Products.* Principal competitors in table accessories and other products are small local distributors. Key competitive advantages are the ability to be a single-source supplier of all table game products, service, and product quality.

*Dice.* Our primary competitor in dice is Midwest Game Supply Co., based in the United States. Primary competitive advantages are brand recognition, product quality, manufacturing capacity, multiple brands, product options, service, and value.

## **Materials and Supplies**

Where possible, we diversify our supplier base to avoid a disruption of supply. Most of our raw materials are staple goods such as plastic, wood, felt, and synthetic fabric, which are readily available from several suppliers. We believe the availability of these materials is adequate to meet our ongoing manufacturing needs. However, some key components or raw materials, such as RFID tags or paper, have unique suppliers. For these critical supplies, we inventory, when possible, additional quantities.

## **Manufacturing**

Most of our products are produced based on discrete orders. We manufacture few products to inventory. Our manufacturing facilities are in Beaune, France; San Luis Rio Colorado, Mexico; Blue Springs, Missouri; and Macau S.A.R., China. In France we produce our Bourgogne et Grasset® American-style casino chips, as well as plaques and jetons. In Mexico, we produce Paulson®, Bud Jones®, Dolphin®, and Bourgogne et Grasset® American-style casino chips, as well as table layouts, gaming furniture, table accessories, and dice. In Blue Springs, we produce Paulson® and Gemaco® playing cards, and table layouts. In Macau S.A.R., we manufacture table layouts. We have the facilities, equipment, and personnel necessary to meet expected customer demand.

## **Research and Development**

We continually invest in developing or acquiring new or improved products. We release new updates to our Chip Inventory System (CIS), we develop new security features for our casino currency products and develop new manufacturing processes to improve the quality of our products. In 2017, we released our Smart Checkpoint which provides the ability to authenticate the RFID currency directly at the table. For information regarding the amounts spent during 2017 and 2016 on research and development activities, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## **Intellectual Property**

We own numerous United States and internationally-protected patents, trademarks and logos. Our trademarks, logos, and patent rights are valuable to our operations and are an important part of our marketing strategy. Our policy is to actively pursue and maintain registration of our patents, trade secrets, trademarks and logos, where needed, and to vigorously defend against any infringement or dilution.

## **Environmental Matters**

Our operations are in compliance with international, federal, state, and local environmental laws and regulations. Liability for environmental remediation is accrued if considered probable and costs can be reasonably estimated.

## **Employees**

At December 31, 2017, we employed 709 full-time employees, consisting of 340 employees in Mexico, 230 in the United States, 112 in France, and 27 in Macau S.A.R. None of our employees are covered by collective bargaining agreements and we believe that our relations with our employees are good.

## **Regulation and Licensing**

The gaming operations of each of our subsidiaries, as well as the operations of casinos, are subject to extensive regulation by over 200 state, federal, tribal, and international agencies, with the majority of oversight by individual state gaming control boards and tribal gaming agencies. We have never been denied a gaming-related license.

While the regulatory requirements vary from jurisdiction to jurisdiction, most require licenses, permits, findings of suitability, documentation of qualification including evidence of financial stability and/or other required approvals for companies who manufacture and distribute gaming equipment, as well as the individual suitability of officers, directors, major stockholders, and key employees. Under the various gaming regulations, key personnel generally include the current and/or proposed corporate officers and directors of a corporation and its subsidiaries. Laws of the various gaming regulatory agencies are generally intended to protect the public and ensure that gaming-related activity is conducted honestly and competitively and is free of corruption.

Certain regulators not only govern the activities within their jurisdiction, but also oversee activities that occur in other jurisdictions to ensure that we comply with local standards on a worldwide basis. As a Nevada corporation, state regulatory authorities require us to maintain, at a minimum, Nevada gaming standards for all operations worldwide. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is provided in Exhibit 99.01 of this annual report on Form 10-K.

In August 2012, the Securities and Exchange Commission (SEC) adopted the conflict mineral rules requiring issuers that manufacture products that contain certain minerals and metals, known as conflict minerals, to perform due diligence and to report annually to the SEC whether such minerals originated in the Democratic Republic of Congo or an adjoining country. The implementation of these new requirements could adversely affect the sourcing, availability, and pricing of minerals that we use in the manufacture of our products. In addition, we have incurred and will incur additional costs to comply with these disclosure requirements, including costs related to determining the source of any of the relevant minerals used in our products. A report is due annually on May 31 for the previous calendar year.

## Dependence on One or a Few Major Customers

At December 31, 2017, no casino customer accounted for 10% or more of our accounts receivable balance. At December 31, 2016, one casino customer accounted for 25% of our accounts receivable balance.

Because of large orders for casino openings or expansions, it is not unusual to have temporary concentrations of our accounts receivable balance related to one or a few customers.

## Financial Information about Geographic Areas

See Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 13. Geographic and Product Line Information, for financial information by geographic area.

## Available Information

Our principal executive office is located at 3945 West Cheyenne Avenue, North Las Vegas, Nevada 89032. Our telephone number is (702) 384-2425. Our website is [www.gpigaming.com](http://www.gpigaming.com). Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and, if applicable, any amendments to those reports, are available on our website free of charge as soon as reasonably practicable after we electronically file, or furnish, them to the SEC. The information found on our website is not incorporated or part of this annual report on Form 10-K or any other report we file or furnish to the SEC. Copies are also available free of charge by (i) telephonic request to our Investor Relations Department at (702) 384-2425, or (ii) written request to Gaming Partners International Corporation, Attn: Investor Relations, 3945 West Cheyenne Avenue, Suite 208, North Las Vegas, Nevada 89032.

## Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the factors described below, in addition to those discussed elsewhere in this report, in analyzing an investment in our common stock. If any of the events described below occurs, our business, financial condition, and results of operations would likely suffer, the trading price of our common stock could fall, and you could lose all or part of the money you paid for our common stock. The risk factors described below are not the only ones we face. Risks and uncertainties not known to us currently, or that may appear immaterial, also may have a material adverse effect on our business, financial condition, and results of operations.

In addition, the following risk factors and uncertainties could cause our actual results to differ materially from those projected in our forward-looking statements, whether made in this annual report or future quarterly reports to stockholders, press releases, or oral statements, whether in presentations, responses to questions, or otherwise. We urge you to carefully review the following discussion of the specific risks and uncertainties that affect our business, any of which could have an adverse effect on our financial condition and results of operations. These include, but are not limited to, the following:

### **Demand for our products could be adversely affected by:**

- a significant shift in player preferences away from live table games to electronic, mobile, or online gaming, including the further legalization, expansion, and popularity of electronic, mobile, and online gaming;
- slow growth rate of new and existing land-based casinos and markets;
- delays of scheduled openings of newly constructed or planned land-based casinos;
- a decline in the rate of replacement of existing products;
- a decline in the public acceptance of gaming;
- a decline in the popularity of the types of games with which our products are used;
- a decline in the perceived usefulness and necessity of counterfeit security features in our products;
- an increase in the popularity of competitors' products;
- a shift in customer preference between American-style casino chips and European-style plaques and jetons; and

- an increase in the number of competitors in the casino currency market or an inability to compete effectively with existing or new competitors.

**Our success in the gaming industry depends in part on our ability to develop and introduce innovative products and could be adversely affected by:**

- any defects in our RFID casino currencies or related products, or a failure of such products containing new innovative technology to perform as contemplated, which could result in the rejection or return of our products, damage to our reputation, lost revenues, increased service costs, warranty claims, and litigation;
- a lack of success in integrating our RFID technology with other technology for table game products, such as player tracking systems;
- the inability of us or another company to develop, sell, and support RFID-related applications requested by our customers, thereby making our RFID casino currencies less attractive;
- any delay by us in introducing new products on schedule;
- the development of competing new technologies, making our technology obsolete or undesirable; and
- a lack of success in developing or adequately servicing new products, in particular our products with security features.

**Our intellectual property rights are subject to risks, including:**

- approval of competitors' patent applications that may restrict our ability to compete effectively;
- competitors' infringement upon our existing trademarks, patents, trade secrets, and copyrights;
- expiration of our patents and licenses;
- inability to obtain, maintain, and defend patents, trademarks, copyrights, and trade secrets to protect our products and technology;
- costs in defending our intellectual property rights, including indirect costs related to the diversion of management's time and attention away from the operation of our business;
- successful challenge of our patents regarding our RFID embedded casino currencies; and
- ineffective or lack of enforcement of patents by our licensors.

**Our business is vulnerable to changing economic conditions, including:**

- uncertainties related to changing economic conditions, including those that affect the health of the gaming industry;
- declines in discretionary spending on entertainment activities, including gaming, for reasons beyond our control such as continued negative economic conditions, travel or tourism declines, natural disasters, acts of war or terrorism, transportation disruptions and other travel limitations, or health epidemics;
- consolidations within the gaming industry;
- higher than anticipated manufacturing, selling, administrative, legal, and/or distribution costs;
- changes in interest rates resulting in changes in the fair market value of our financial instruments or increased interest expense;
- changes in interest rates causing a reduction of investment income or in the value of market-rate-sensitive instruments;

- a tightening of the availability of capital so that loans to us or to our customers would only be available at cost-prohibitive terms and conditions; and
- unfavorable changes in federal, state, or foreign taxation laws or application of such laws that could reduce our profitability.

**We operate in a number of tribal jurisdictions with sovereign immunity, which presents risks we generally do not encounter in United States jurisdictions. We also operate in many countries outside of the United States which subjects us to certain inherent risks, including:**

- social, political, or economic instability in international markets, particularly those where we have higher sales concentrations and growth;
- tariffs, other trade barriers, and import or export licensing requirements;
- fluctuations in foreign exchange rates or an inability to effectively hedge our foreign currency exposures;
- expropriation, nationalization, and restrictions on repatriation of funds or assets;
- additional costs of compliance with international laws or unexpected changes in regulatory requirements, including those related to post-employment benefits;
- adverse changes in the creditworthiness of parties with whom we have significant receivables or forward currency exchange contracts;
- difficulty protecting our intellectual property;
- recessions in foreign economies;
- difficulties in maintaining foreign operations, including labor regulations, staffing, and management of widespread operations;
- changes in consumer tastes and trends;
- acts of war or terrorism; and
- U.S. government requirements for import and export.

**We operate in a highly regulated industry and our ability to sell our products in existing jurisdictions or expand into new jurisdictions could be adversely affected by:**

- changes in existing gaming laws and regulations or new interpretations of existing laws and regulations that hinder or prevent us from continuing to operate in the jurisdictions where we currently do business or where we intend to do business;
- unfavorable public referendums or anti-gaming legislation affecting or directed at gaming manufacturers or gaming operators;
- findings of non-compliance with applicable laws or regulations which could lead to a limitation, conditioning, suspension, or revocation of any of our gaming licenses;
- delays in obtaining or maintaining licenses or approvals from regulatory agencies;
- limited technological expertise by regulatory agencies causing restrictions or burdensome conditions on approvals;
- unfavorable determinations or challenges of suitability by gaming regulatory authorities with respect to our company, business, principal stockholders, officers, directors, or key employees; and

- excessive costs related to obtaining the necessary regulatory approvals.

**We are subject to risk related to litigation and claims asserted against us, including:**

- adverse material effects on our financial condition due to asserting or defending claims;
- the discovery of facts with respect to legal actions pending against us, but not presently known to us;
- agreements with casinos in Native American jurisdictions which may subject us to sovereign immunity risk; and
- a diversion of management's attention from our business.

**We have a stockholder with effective control of the Company, which means:**

- it can control all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions;
- it can delay or prevent a change in control of the Company, even when such change in control is in the best interests of other stockholders; and
- its ownership might adversely affect the market price of our common stock.

**Pursuing or implementing acquisitions could have a material adverse effect on our business, financial condition, and results of operations, including:**

- significant expenses related to due diligence efforts in connection with potential acquisitions and diversion of management's attention away from our existing business;
- the issuance of potentially dilutive equity securities, significant expenditures of cash, the incurrence of debt and contingent liabilities, or an increase in amortization expenses; and
- the failure to successfully consummate an acquisition on favorable terms or at all.

**Any acquisition we consummate may fail to produce the revenues, earnings, or business synergies we anticipate for a variety of reasons, including:**

- the inability to integrate operations, financial reporting, internal controls, technologies, products, and personnel, including issues raised by national, geographic, and cultural differences;
- potential impairments in acquired assets;
- a less-than-successful entry into markets or acquisition of products or technologies in which we have limited or no prior experience;
- expenses associated with any unknown or potential legal liabilities;
- changes in or uncertainties of application of laws or regulations;
- failures to identify or uncover material risks in due diligence;
- management of worldwide operations; and
- the inability to exploit acquired intellectual property or the development, sale, or lease of acquired products, or unanticipated increases in manufacturing expenses.

**Our business operations are subject to other risks, including:**

- the loss of key employees, sales personnel, and technical staff or an inability to hire a sufficient number of such persons;

- limited or unique suppliers for certain key raw materials for significant products;
- possibility of failure of components purchased from suppliers;
- the presence of lead in older versions of Paulson® brand casino chips, which could lead to unanticipated costs;
- increased costs due to reliance on third-party suppliers and contract manufacturers or a disruption in our manufacturing processes;
- increased costs due to compliance with the conflict mineral rules adopted under the Dodd-Frank Act, including costs related to determining the source of any of the relevant minerals and metals used in our products and any potential reputational harm if we are unable to sufficiently verify the origins for the minerals and metals;
- adverse changes in the creditworthiness of parties with whom we have receivables;
- casualty, theft, or loss of our casino currencies prior to delivery to casinos or the counterfeiting of our casino currencies;
- the possibility of failure of our security systems, or a breakdown in casino procedures designed to prevent the manipulation of our products, to prevent fraud, both against us and our customers, or the experience of any technical difficulties which may cause the public and/or our customers to lose confidence in our products or operations and/or subject us to legal claims by our customers or to investigation by gaming authorities; and
- any failures or difficulties in maintaining our computer information systems, including as a result of cyber-attacks, breaches of our computer systems, and other security vulnerabilities, could result in disruption of operations, loss of information, litigation, and unanticipated increases in costs.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our headquarters is located in a 15,000 square-foot facility that we lease in North Las Vegas, Nevada. We manufacture and store our primary products at facilities in San Luis Rio Colorado, Mexico; San Luis, Arizona; Blue Springs, Missouri; Beaune, France; and Macau S.A.R., China. We also lease sales offices in Atlantic City, New Jersey; Gulfport, Mississippi; and Macau S.A.R.

*North Las Vegas, Nevada.* Our headquarters is located at 3945 West Cheyenne Avenue, North Las Vegas, Nevada. We are leasing approximately 15,000 square feet for a term of seven years commencing on January 1, 2016.

*San Luis Rio Colorado, Mexico.* We manufacture casino currencies, table accessories, table layouts, dice, and gaming furniture at three facilities in San Luis Rio Colorado, Mexico. These facilities include 80,000 square feet of leased facilities, and a 70,000 square-foot facility, which we own.

*San Luis, Arizona.* We warehouse inventory in an 8,000 square-foot leased facility in San Luis, Arizona, across the border from our Mexican manufacturing facility.

*Blue Springs, Missouri.* We manufacture playing cards and table layouts at a facility in Blue Springs, Missouri. This facility includes 65,000 square-feet of manufacturing, office, and sales administration space. In addition, we store raw materials in an underground storage facility occupying 20,000 square feet of warehouse space in Independence, Missouri. This lease terminates in May 2018 and we are currently evaluating other warehouse spaces.

*Beaune, France.* We manufacture casino currency and table layouts at a facility in Beaune, France. This facility includes 34,000 square feet of manufacturing, office and sales administration space, which we own. In addition, we own a 15,000 square-foot administrative building. We also lease a 5,000 square-foot building, which houses our mold-making operations.

*Macau S.A.R., China.* We distribute our full product line in a leased 4,000 square foot sales office in Macau S.A.R., China. In addition, we manufacture and warehouse table layouts in two additional leased facilities in Macau S.A.R., with a total of 6,700 square feet.

*Facility Capacity.* With a total of approximately 322,700 square feet of manufacturing, warehouse, and administrative facilities as of December 31, 2017, we believe that we have sufficient production capacity to meet anticipated demand for all of our products.

**Item 3. Legal Proceedings**

We are not a party to any material pending legal proceeding. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us.

There can be no assurance that we will prevail in any litigation. Liability for material claims are accrued when a loss is considered probable and can be reasonably estimated. Legal costs associated with claims are expensed as incurred. See Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 12. Commitments and Contingencies, for information regarding legal proceedings and contingencies.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

#### Market Information

Our common stock is traded on the NASDAQ Global Market under the symbol GPIC. The following table sets forth the quarterly high and low prices for trades of our common stock as reported on the NASDAQ Global Market during the periods indicated. All stock prices reflect a fiscal year ending December 31. On March 15, 2018, the closing price was \$9.69 per share.

	Fiscal Year 2017		Fiscal Year 2016	
	High	Low	High	Low
First Quarter	\$ 12.00	\$ 9.66	\$ 10.33	\$ 8.51
Second Quarter	12.50	9.13	9.98	8.55
Third Quarter	12.12	9.65	12.34	9.12
Fourth Quarter	11.50	10.35	11.95	10.27

#### Holdings

There were 70 holders of record of our common stock as of March 15, 2018.

#### Dividend Policy

Our Board of Directors has no plans to pay a regular dividend on our common stock, but intends to evaluate from time to time the merit of paying a dividend. In both December 2017 and 2016, we paid a cash dividend of \$0.12 per issued and outstanding common share, resulting in aggregate dividends of \$952,000 and \$951,000, respectively.

#### Transfer Agent

Our stock transfer agent and registrar is Broadridge Corporate Issuer Solutions, P.O. Box 1342, Brentwood, NY 11717. Their telephone number is 1-877-830-4936.

#### Purchases of Equity Securities by the Issuer

The Company's stock repurchase program adopted on December 1, 2011, remains in effect. As of December 31, 2017, 215,590 shares remain authorized for repurchase. No common shares were repurchased during 2017 or 2016, and there is no assurance that we will repurchase any additional shares under the repurchase program. See Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 15. Stockholders' Equity.

### **Amendments to the 1994 Directors' Stock Option Plan (Directors' Plan)**

On December 26, 2017, the Board of Directors adopted amendments to the Directors' Plan to extend the term of the plan from January 31, 2019 to January 31, 2022 and allow for the grant of stock appreciation rights to non-employee directors in addition to grants of stock options. Stock appreciation rights entitle non-employee directors to surrender a vested option and receive in exchange a cash payment. Non-employee directors currently hold outstanding stock options which will expire beginning in 2018 unless exercised. However, exercise of these options and the potential resulting sale of the common stock received upon exercise of the stock options could have a significant impact on the price of the Company's common stock due to its low trading volume. The Board of Directors believes that the low trading volume of the Company's stock would be unable to support the influx of directors selling shares received upon the exercise of stock options granted under the Directors' Plan without a corresponding decrease in the Company's stock price. Therefore, the Board of Directors adopted amendments to the Directors' Plan to allow for the grant of stock appreciation rights which would entitle the non-employee director to receive the amount by which the fair market value of a share of common stock immediately prior to exercise exceeds the related stock option exercise price. The Board of Directors believes that the grant of stock appreciation rights continues to promote the underlying goals of the Directors' Plan to encourage directors to take a long-term view of the Company's affairs and to reward directors for their service to the Company, without directly affecting the Company's stock price. The amendments to the Directors' Plan are being submitted to the Company's stockholders for approval at the annual meeting in May 2018.

On December 26, 2017, the Board of Directors, upon the recommendation of the Compensation Committee, granted stock appreciation rights to the Company's non-employee directors relating to outstanding stock options for an aggregate 262,750 shares of common stock previously granted to them under the Directors' Plan which expire after December 26, 2017. These grants of stock appreciation rights to our non-employee directors are being submitted to the Company's stockholders for ratification at the annual meeting in May 2018. For more information see Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 16. Stock Option Programs and Share-based Compensation Expense.

### **Item 6. Selected Financial Data**

The selected consolidated financial data included in the following tables should be read in conjunction with Item 8. Financial Statements and Supplementary Data and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. The selected consolidated financial data for the years ended December 31, 2017 and 2016 have been derived from our audited consolidated financial statements included at Item 8. Financial Statements and Supplementary Data. The selected consolidated financial data for the years ended December 31, 2015, 2014, and 2013 have been derived from our audited consolidated financial statements not included herein.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	<i>(in thousands, except per-share amounts)</i>				
<b>STATEMENT OF INCOME DATA:</b>					
Revenues	\$ 80,602	\$ 82,139	\$ 78,238	\$ 60,972	\$ 56,173
Cost of revenues	57,924	56,803	51,403	42,657	38,584
Gross profit	22,678	25,336	26,835	18,315	17,589
Selling, administrative, and research and development	17,152	17,776	16,926	16,127	16,970
Operating income	5,526	7,560	9,909	2,188	619
Other expense, net	(85)	(34)	(173)	227	4
Income before income taxes	5,441	7,526	9,736	2,415	623
Income tax provision	1,815	2,343	2,805	(261)	(543)
Net income	\$ 3,626	\$ 5,183	\$ 6,931	\$ 2,676	\$ 1,166
<b>Earnings per share:</b>					
Basic	\$ 0.46	\$ 0.65	\$ 0.87	\$ 0.34	\$ 0.15
Diluted	\$ 0.45	\$ 0.64	\$ 0.86	\$ 0.33	\$ 0.15
<b>Weighted-average shares of common stock outstanding:</b>					
Basic	7,930	7,929	7,926	7,916	7,942
Diluted	8,045	8,042	8,040	8,015	8,029
<b>BALANCE SHEET DATA:</b>					
Cash and cash equivalents	\$ 14,064	\$ 10,604	\$ 17,788	\$ 8,969	\$ 14,492
Marketable securities	-	-	3,503	3,597	5,724
Working capital	24,087	24,496	31,129	16,195	32,069
Property and equipment, net	24,933	24,310	14,102	15,087	10,996
Total assets	83,403	79,999	77,244	68,394	55,449
Current liabilities	16,636	14,596	15,201	19,794	6,106
Long-term debt	5,265	6,649	8,002	-	-
Total stockholders' equity <sup>(1)</sup>	61,316	57,533	53,788	48,265	47,473

(1) Cash dividends of \$952,000 and \$951,000 were paid in 2017 and 2016, respectively. No cash dividends were paid in 2015, 2014 or 2013.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist in the understanding of our results of operations and our present financial condition for the year ended December 31, 2017. When reviewing this material, you should refer to the additional detailed information in our consolidated financial statements and the accompanying notes at Item 8. Financial Statements and Supplementary Data. Except for historical information contained herein, statements in the following discussion may be forward-looking. Such forward-looking statements involve known and unknown risks and uncertainties and other factors that could cause actual results to differ significantly from those expressed. We discuss such risks, uncertainties and other factors throughout this report and specifically under Item 1A. Risk Factors.

For an overview of our business and information on our products, as well as other general information, see Item 1. "Business."

Historically, we have experienced significant fluctuations in quarterly results primarily due to large, discrete currency orders as a result of casino openings, casino expansions, or large replacement orders.

Our backlog, which reflects signed orders to be delivered over the following twelve months, was as follows at December 31, 2017 and December 31, 2016:

	GPI USA	GPI Asia	GPI SAS	Total
December 31, 2017	\$ 16.6 million	\$ 3.8 million	\$ 0.6 million	\$ 21.0 million
December 31, 2016	\$ 9.0 million	\$ 8.1 million	\$ 0.3 million	\$ 17.4 million

### Outlook

During the second half of 2017, we made significant progress in addressing expansion related issues impacting operations and margins at our Blue Springs facility. These efforts have resulted in improved margins in our card business. In addition, we added sales and marketing staff to enhance development of a retail card business. We do not expect material retail revenue in the short term, as it will take time to build relationships and a significant customer base. While extremely difficult to accurately predict casino opening dates, we currently expect 2018 sales in our Asian markets to be similar to 2017.

As previously disclosed in the 8-K filed January 31<sup>st</sup>, 2018 we entered into a joint development agreement to provide a table management solution that would combine visioning technology and immersive data analytics with our RFID technology to better secure table currency, increase fraud protection, improve table productivity, and provide data for player behavior applications. We hope to introduce this table management solution at the end of 2018 or early 2019.

### Financial and Operational Highlights

For the fourth quarter of 2017, our revenues were \$20.8 million, a decrease of \$2.3 million, or 10.2%, compared to revenues of \$23.1 million in the fourth quarter of 2016. For the fourth quarter of 2017, our net income was \$0.4 million, a decrease of \$0.3 million, or 40.5%, compared to net income of \$0.7 million in the fourth quarter of 2016.

For the year ended December 31, 2017, our revenues were \$80.6 million, a decrease of \$1.5 million, or 1.9%, compared to revenues of \$82.1 million in 2016. Our net income for 2017 was \$3.6 million, a decrease of \$1.6 million, or 30.0%, compared to net income of \$5.2 million for 2016.

GPI SAS uses the euro as its functional currency. At December 31, 2017 and 2016, the U.S. dollar to euro exchange rates were 1.20 and 1.05, respectively, which represents a 13.9% stronger dollar compared to the euro. The average exchange rates for the years ended December 31, 2017 and 2016 was \$1.13 and \$1.11, respectively, which represents a 2.1% stronger dollar compared to the euro.

Our Mexican manufacturing plant uses the U.S. dollar as its functional currency. At December 31, 2017 and 2016, the Mexican peso to U.S. dollar exchange rates were 19.69 and 20.75, respectively, which represents a 5.1% weaker dollar compared to the peso. The average exchange rates for the years ended December 31, 2017 and 2016 were 18.92 and 18.72 pesos to the U.S. dollar, respectively, which represents a 1.1% stronger dollar compared to the Mexican peso.

GPI Asia uses the U.S. dollar as its functional currency. At December 31, 2017 and December 31, 2016, the Macau pataca to U.S. dollar exchange rates were 8.05 patacas and 8.20 patacas, respectively, which represents a 1.8% weaker dollar compared to the Macau pataca. The Macau pataca to U.S. dollar average exchange rates for the years ended December 31, 2017 and 2016 were 8.13 patacas and 8.17 patacas, respectively, which represents a 0.5% weaker dollar compared to the Macau pataca.

### Results of Operations

The following table summarizes selected items from our consolidated statements of income (dollars in thousands) and as a percentage of revenues for the years ended December 31:

	2017		2016		Year-to-Year Change	
Revenues	\$ 80,602	100.0%	\$ 82,139	100.0%	\$ (1,537)	(1.9)%
Cost of revenues	57,924	71.9%	56,803	69.2%	1,121	2.0%
Gross profit	22,678	28.1%	25,336	30.8%	(2,658)	(10.5)%
Selling, administrative, and research and development	17,152	21.3%	17,776	21.6%	(624)	(3.5)%
Operating income	5,526	6.9%	7,560	9.2%	(2,034)	(26.9)%
Other expense, net	(85)	(0.1)%	(34)	(0.0)%	(51)	150.0%
Income before income taxes	5,441	6.8%	7,526	9.3%	(2,085)	(27.7)%
Income tax provision (benefit)	1,815	2.3%	2,343	2.9%	(528)	(22.5)%
Net income	\$ 3,626	4.5%	\$ 5,183	6.3%	\$ (1,557)	(30.0)%

The following table presents certain data by geographic location (dollars in thousands) and as a percentage of revenues for the years ended December 31:

	2017		2016		Year-to-Year Change	
Revenues						
The Americas	\$ 54,638	67.8%	\$ 56,247	68.5%	\$ (1,609)	(2.9)%
Asia-Pacific	23,200	28.8%	22,080	26.9%	1,120	5.1%
Europe and Africa	2,764	3.4%	3,812	4.6%	(1,048)	(27.5)%
Total	\$ 80,602	100.0%	\$ 82,139	100.0%	\$ (1,537)	(1.9)%

The following table details our revenues by product line (dollars in thousands) and as a percentage of revenues for the years ended December 31:

	2017		2016		Year-to-Year Change	
Casino currency without RFID	\$ 14,754	18.3%	\$ 15,698	19.1%	\$ (944)	(6.0)%
Casino currency with RFID	18,041	22.4%	16,123	19.6%	1,918	11.9%
Total casino currency	32,795	40.7%	31,821	38.7%	974	3.1%
Playing cards	24,864	30.8%	26,708	32.5%	(1,844)	(6.9)%
Table accessories and other products	6,802	8.4%	6,639	8.1%	163	2.5%
Table layouts	5,315	6.6%	5,259	6.4%	56	1.1%
Gaming furniture	3,126	3.9%	2,645	3.2%	481	18.2%
Dice	2,791	3.5%	2,859	3.5%	(68)	(2.4)%
RFID solutions	1,623	2.0%	3,000	3.7%	(1,377)	(45.9)%
Shipping	3,286	4.1%	3,208	3.9%	78	2.4%
Total	\$ 80,602	100.0%	\$ 82,139	100.0%	\$ (1,537)	(1.9)%

#### Comparison of Operations for the Years Ended December 31, 2017 and 2016

*Revenues.* For the year ended December 31, 2017, our revenues were \$80.6 million, a decrease of \$1.5 million, or 1.9%, compared to revenues of \$82.1 million in 2016. The decrease in revenues is primarily due to a decrease in playing cards sales and the RFID solutions product lines, offset by an increase in casino currency.

*Cost of Revenues.* For the year ended December 31, 2017, our cost of revenues was \$57.9 million, an increase of \$1.1 million, or 2.0%, compared to cost of revenues of \$56.8 million for 2016. As a percentage of revenues, our cost of revenues increased to 71.9% in 2017 compared to 69.2% in 2016. The increased cost of revenues was driven by the same factors described under Revenues above and Gross Profit below.

*Gross Profit.* For the year ended December 31, 2017, gross profit was \$22.7 million, a decrease of \$2.6 million, or 10.5%, compared to gross profit of \$25.3 million for 2016. As a percentage of revenues, our gross profit decreased to 28.1% in 2017 compared to 30.8% in 2016. This decrease in gross profit was primarily related to a decrease in RFID solutions sales, a decrease in playing cards sales, an exceptional write-down of \$0.8 million on slow-moving casino currency inventory items, and an increase in our depreciation of \$1.2 million. This increase in depreciation is a result of the expansion at our Blue Springs, Missouri, location and the 2016 Dolphin asset acquisition described at Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 2. Dolphin Asset Acquisition..

*Selling, Administrative, and Research and Development Expenses.* The following table details the selling, administrative, and research and development expenses (dollars in thousands) and as a percentage of revenues for the years ended December 31:

	2017		2016		Year-to-Year Change	
Marketing and sales	\$ 6,619	8.2%	\$ 6,407	7.8%	\$ 212	3.3%
General and administrative	9,016	11.1%	10,181	12.3%	(1,165)	(11.4)%
Research and development	1,517	1.9%	1,188	1.4%	329	27.7%
Total selling, administrative, and research and development	\$ 17,152	21.3%	\$ 17,776	21.6%	\$ (624)	(3.5)%

For the year ended December 31, 2017, selling, administrative, and research and development expenses were \$17.2 million, a decrease of \$0.6 million, or 3.5%, compared to selling, administrative, and research and development expenses of \$17.8 million in 2016. As a percent of revenue, selling, administrative, and research and development expenses remained relatively unchanged in 2017 compared to 2016.

Marketing and sales expenses increased \$0.2 million to \$6.6 million in 2017 compared to \$6.4 million in 2016. This is primarily due to increased compensation and related costs.

General and administrative expenses decreased \$1.2 million to \$9.0 million in 2017 compared to \$10.2 million in 2016. This is primarily due to a decreases in bad debt expense of \$0.5 million, in intangible asset impairment loss of \$0.4 million, in legal fees of \$0.2 million, and in gaming license costs for \$0.2 million, partially offset by an increase of \$0.3 million in stock compensation related costs.

Research and development expenses increased \$0.3 million to \$1.5 million in 2017 compared to \$1.2 million in 2016. This is primarily due to an increase in headcount and an increase in subcontracting cost.

*Other (Expense) and Income, net.* The following table details other (expense) and income items (dollars in thousands) and as a percentage of revenues for the years ended December 31:

	2017		2016		Year-to-Year Change	
Interest income	\$ 1	0.0%	\$ 23	0.0%	\$ (22)	(95.7)%
Interest expense	(249)	(0.3)%	(242)	(0.2)%	(7)	2.9%
Gain on foreign currency transactions	182	0.2%	187	0.2%	(5)	(2.7)%
Other expense, net	(19)	(0.0)%	(2)	(0.0)%	(17)	850.0%
Total other expense, net	<u>\$ (85)</u>	<u>(0.1)%</u>	<u>\$ (34)</u>	<u>(0.0)%</u>	<u>\$ (51)</u>	<u>150.0%</u>

Other expense remained relatively unchanged in 2017 compared to 2016.

*Income Taxes.* During the year ended December 31, 2017, our effective tax rate was 33.4%, compared to an effective tax rate of 31.1% for the year ended December 31, 2016. Our effective tax rate for the year ended December 31, 2017 was favorably affected by the foreign rate differential on the income from our Macau subsidiary, GPI Asia, and the benefit from research and low wage tax credits primarily from our French subsidiary, GPI SAS; partially offset by our Subpart F income adjustment and by the impact of the 2017 Tax Cuts and Jobs Act. Our effective tax rate for the year ended December 31, 2016 differed from the statutory rate primarily because of the foreign rate differential on the income from our Macau subsidiary, GPI Asia, and the benefit from research and low wage tax credits from our French subsidiary, GPI SAS, partially offset by our Subpart F income adjustment.

Pre-tax income (loss) by taxing jurisdictions for the years ended December 31 (in thousands) was as follows:

	2017	2016
Macau S.A.R., China	\$ 3,620	\$ 4,672
France	1,021	(477)
Mexico	544	337
United States	256	2,994
Total pre-tax income	<u>\$ 5,441</u>	<u>\$ 7,526</u>

Our corporate tax rate is calculated on a consolidated basis. Included in the United States numbers are the costs of GPIC, which include such items as regulatory fees, board of director expenses, investor relations expenses, auditing and review fees, and corporate legal expenses. We do not allocate these costs to our subsidiaries. These expenses totaled approximately \$1.2 million and \$1.0 million for 2017 and 2016, respectively.

We account for uncertain tax positions in accordance with applicable accounting guidance. At December 31, 2017, we reported unrecognized tax benefits related to the on-going French Tax Administration's (FTA) examination of GPI SAS for tax years 2013 and 2012. In the first quarter of 2018, in connection with this examination, GPI paid €1.4 million to the FTA. While we were legally obligated to pay this amount, which represents the FTA's calculation of the taxes owed, this payment does not represent a settlement nor the end of the examination and we are actively disputing the findings of the FTA. At this time, an estimate of the range of the reasonably possible outcomes cannot be made. We do not expect the examination to be completed within the next twelve months. It is reasonably possible that the amount of the unrecognized benefit with respect to our unrecognized tax position could change within the next 12 months. This change may be the result of settlement of the ongoing audit or competent authority proceedings.

In addition to the on-going French Tax Administration examination of GPI SAS for tax years 2013 and 2012, the Company received notification in August 2017, of a federal income tax examination by the Internal Revenue Service for the 2015 tax year. We expect this audit to be finalized in 2018.

*Impact of Inflation.* To date, inflation has not had a material effect on our operations.

## Liquidity and Capital Resources

*Sources of Liquidity and Capital Resources.* Historically, our primary source of liquidity and capital has been cash from operations. On June 26, 2015, we entered into a Credit Agreement with Nevada State Bank for a combined \$15.0 million credit facility, consisting of a \$10.0 million seven-year term loan and a \$5.0 million five-year revolving loan. We borrowed the full amount under the term loan which will mature on June 26, 2022, and have not drawn any funds under the revolving loan. For additional information, see Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 11. Debt.

Other potential sources of capital include, but are not limited to, additional bank credit facilities and the sale of stock. We believe that we have the resources to satisfy our operating needs for working capital, capital expenditures, purchases of common stock under our stock repurchase program, litigation, dividends or acquisitions for our operations for a minimum of the next twelve months.

At December 31, 2017, we had \$14.1 million in cash and cash equivalents. Of this amount, \$6.6 million is held by GPI SAS, \$4.9 million is held by GPI USA, and \$2.6 million is held by GPI Asia. As a consequence of the Tax Cuts and Jobs Act (the “Tax Act”), enacted on December 22, 2017, of those amounts held outside of the United States, we would not be subject to further taxation if we were to repatriate those amounts, except for potential minimal withholding taxes. Unrepatriated earnings were approximately \$6.2 million as of December 31, 2017. Except for the \$2.0 million earnings from GPI SAS, these unrepatriated earnings are considered permanently reinvested, since it is management’s intention to reinvest these foreign earnings in future operations. We project that we will have sufficient cash flow in the U.S. and will not need to repatriate the foreign earnings from GPI Asia to finance U.S. operations. Except for the deemed dividends under Section 956 in 2015 and under Subpart F, we continue to assert that earnings from GPI Asia will be permanently reinvested.

*Working Capital.* The following table summarizes our cash and cash equivalents, working capital, and current ratio for the years ended December 31 (dollars in thousands):

	<u>2017</u>	<u>2016</u>	<u>Year-to-Year Change</u>	
Cash and cash equivalents	\$ 14,064	\$ 10,604	\$ 3,460	32.6%
Working capital	24,087	24,496	(409)	(1.7)%
Current ratio	2.4	2.7		

The decrease in working capital is mostly due to a decrease of \$3.7 million in accounts receivable, an increase of \$1.3 million in accounts payable, and of \$1.1 million in accrued liabilities, offset by an increase of \$3.5 million in cash and cash equivalents, \$1.2 million in other current assets, \$0.5 million in inventories, \$0.5 million in prepaid expenses and a decrease of \$0.7 million in customer deposits and deferred revenue. For additional information see Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 10. Accrued Liabilities.

*Cash Flows.* The following table summarizes our cash flow (dollars in thousands) for the years ended December 31:

	<u>2017</u>	<u>2016</u>	<u>Year-to-Year Change</u>	
Operating activities	\$ 10,140	\$ 3,547	\$ 6,593	185.9%
Investing activities	(4,925)	(8,319)	3,394	40.8%
Financing activities	(2,308)	(2,281)	(27)	1.2%
Effect of exchange rates	553	(131)	684	522.1%
Net change	<u>\$ 3,460</u>	<u>\$ (7,184)</u>	<u>\$ 10,644</u>	<u>148.2%</u>

The increase in cash flows provided by operating activities was primarily caused by an increase of \$6.3 million in the change in operating assets and liabilities, and an increase of \$0.3 million in net income and the adjustments to reconcile net income to net cash. The change in operating assets and liabilities is mostly due to the timing of sales and manufacturing. The increase in the adjustments to reconcile net income to net cash is mostly due to increases of \$1.0 million in depreciation, \$0.8 million in inventory write-down, \$0.3 million in deferred income taxes, \$0.3 million in stock compensation expense, offset by an increase in recovery of bad debt of \$0.4 million and a decrease of \$0.4 million in impairment of intangible assets.

The decrease in cash flows used in investing activities was primarily due to a decrease of \$7.5 million in capital expenditures partially offset by a decrease of \$3.6 million in sale of marketable securities.

Cash flows used in financing activities remained relatively unchanged in 2017 compared to 2016.

The increase from the effect of exchange rates is mostly due to the Euro strengthening compared to the USD in 2017.

*Facilities.* Our facilities are described at Item 2. Properties.

*Capital Expenditures.* In 2018 we currently plan to purchase approximately \$5.0 million in property, plant, and equipment, composed mainly of machinery and equipment for our Blue Springs, Missouri, facility. In 2017, we purchased \$4.4 million of property, plant, and equipment primarily due to capital investments at our Blue Springs, Missouri facility.

## Selected Quarterly Financial Information

	Year Ended December 31, 2017				
	First	Second	Third	Fourth	Total
	(in thousands, except per-share data)				
Revenues	\$ 18,913	\$ 16,274	\$ 24,635	\$ 20,780	\$ 80,602
Cost of revenues	13,093	12,416	17,455	14,960	57,924
Gross profit	5,820	3,858	7,180	5,820	22,678
Selling, administrative, and research and development expenses	4,361	3,782	4,127	4,882	17,152
Operating income	1,459	76	3,053	938	5,526
Other (expense) income, net	(93)	9	32	(33)	(85)
Income before income taxes	1,366	85	3,085	905	5,441
Income tax provision	434	36	880	465	1,815
Net income	\$ 932	\$ 49	\$ 2,205	\$ 440	\$ 3,626
Net earnings per share:					
Basic	\$ 0.12	\$ 0.01	\$ 0.28	\$ 0.06	\$ 0.47
Diluted	\$ 0.12	\$ 0.01	\$ 0.27	\$ 0.05	\$ 0.45

	Year Ended December 31, 2016				
	First	Second	Third	Fourth	Total
	(in thousands, except per-share data)				
Revenues	\$ 16,093	\$ 20,344	\$ 22,559	\$ 23,143	\$ 82,139
Cost of revenues	12,125	13,027	15,036	16,615	56,803
Gross profit	3,968	7,317	7,523	6,528	25,336
Selling, administrative, and research and development expenses	4,005	4,444	4,039	5,288	17,776
Operating (loss) income	(37)	2,873	3,484	1,240	7,560
Other (expense) income, net	(82)	7	43	(2)	(34)
(Loss) income before income taxes	(119)	2,880	3,527	1,238	7,526
Income tax (benefit) provision	(39)	803	1,080	499	2,343
Net (loss) income	\$ (80)	\$ 2,077	\$ 2,447	\$ 739	\$ 5,183
Net (loss) earnings per share:					
Basic	\$ (0.01)	\$ 0.26	\$ 0.31	\$ 0.09	\$ 0.65
Diluted	\$ (0.01)	\$ 0.26	\$ 0.30	\$ 0.09	\$ 0.64

## Contractual Obligations and Commercial Commitments

On May 11, 2016, we purchased certain assets dedicated to the design and manufacture of chips and plaques for gaming tables from Dolphin Products Limited (Dolphin) as described at Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 2. Dolphin Asset Acquisition. At December 31, 2017, \$1.1 million remained to be paid and is included as part of our commitment obligations in the table below.

On June 26, 2015, we entered into a Credit Agreement with Nevada State Bank for a combined \$15.0 million, consisting of a \$10.0 million seven-year term loan and a \$5.0 million five-year revolving loan described at Item 8. Financial Statements and Supplementary Date – Notes to Consolidated Financial Statements – Note 11. Debt.

The following table presents the impact that our contractual obligations and commercial commitments at December 31, 2017 are anticipated to have on our liquidity and cash flow in future periods. Operating leases and contracts that are on a month-to-month basis are not included. For additional information, see Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 12. Commitments and Contingencies.

**Payments Due by Period**  
(in thousands)

<b>Contractual Obligations</b>	<b>Total</b>	<b>0 - 1 years</b>	<b>2 - 3 years</b>	<b>4 - 5 years</b>	<b>Thereafter</b>
Debt	\$ 6,666	\$ 1,401	\$ 2,959	\$ 2,306	\$ -
Purchase and other commitment obligations <sup>(1)</sup>	8,345	8,345	-	-	-
Operating leases	3,783	899	1,357	1,189	338
Interest on debt	566	217	278	65	6
<b>Total contractual cash obligations</b>	<b>\$ 19,360</b>	<b>\$ 10,862</b>	<b>\$ 4,594</b>	<b>\$ 3,560</b>	<b>\$ 344</b>

(1) Amounts represent agreements to purchase goods or services and exclude any agreements that are cancelable without penalty.

As part of our commitment obligations, we included \$1.3 million related to the research and development agreements described at Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 21. Subsequent events.

**Off-Balance Sheet Arrangements**

We have no consolidated off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements included at Item 8. Financial Statements and Supplementary Data have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. Certain of our accounting estimates, including revenue recognition; the allowance for doubtful accounts; write-downs of obsolete, excess, or slow-moving inventories; goodwill; the valuation and amortizable lives of intangible assets; debt; and the recoverability of deferred tax assets require that we apply significant subjective judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, our observance of industry trends, information provided by or gathered from our customers, and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. The estimates discussed below are considered by management to be those in which our estimates and judgments have a significant impact on issues that are inherently uncertain. To provide a further understanding of the methodology we apply, our significant accounting estimates are discussed below and at Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements.

**Revenue Recognition**

We receive revenues from the sales of our gaming products, as well as licensing and services. Revenues are recognized when all of the following have been satisfied:

- The parties have approved the contract and are committed to performing their respective obligations.
- Each party's rights regarding the goods or services to be transferred can be identified.
- The payment terms are identifiable, and it's probable the entity will collect the consideration to which it's entitled in exchange for the goods or services
- The contract has commercial substance.

Determining whether these requirements have been met may require us to make assumptions and exercise judgment that could significantly impact the timing and amount of revenue reported each period. In addition, we may enter into arrangements which include software and/or multiple elements or deliverables, such as RFID solutions, which include RFID equipment, embedded software licenses, and software maintenance services. In such cases, additional judgments and estimates are necessary to ensure the appropriate amounts of revenue are recorded for a given period.

On occasion, we may recognize revenue under a bill and hold arrangement. Under a bill and hold arrangement revenue is recognized when the product is manufactured, completed, invoiced, and segregated from the seller's other inventory so that it is not subjected to being used to fill other orders. Upon invoicing under this arrangement, ownership has passed to the buyer with no residual warranty obligation or right of return such that the earnings process is complete. The customer must request a bill and hold arrangement, preferably in writing, must commit to the purchase, and the delivery date must be fixed.

The application of our revenue recognition policies and changes in our assumptions or judgments affect the timing and amounts of our revenues and costs, as well as deferred revenue.

#### ***Allowance for Doubtful Accounts***

We estimate an allowance for doubtful accounts receivable based on a variety of factors, including the length of time the receivables are past due, economic conditions and trends, significant one-time events, and historical experience. Additional amounts are recorded in the allowance based on our awareness of a particular customer's ability to meet its financial obligations. A change in our estimates of the allowance for doubtful accounts could have a material adverse effect on our consolidated results of operations.

#### ***Inventories***

Inventories are stated at the lower of cost or an estimate of net realizable value. The analysis of net realizable value includes reviewing overall inventory levels, historical and projected sales or usage of these items, the projected markets for our products, and selling costs. Inventory that we estimate will not be used within the next year is considered non-current inventory. Inventory that we estimate will not be used within the next three years is written down. A change in our inventory estimates could have a material adverse effect on our consolidated results of operations.

#### ***Goodwill***

Goodwill is recorded when the consideration paid for an acquisition exceeds the fair value of net tangible and intangible assets acquired. Goodwill is measured and tested for impairment on an annual basis or more frequently if we believe indicators of impairment exist. We test goodwill for impairment using qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, no further testing is performed. If it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we perform a quantitative two-step impairment test. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds fair value, then the second step is used to measure the amount of impairment loss.

#### ***Long-lived and Intangible Assets***

Long-lived assets, including property and equipment and intangible assets, are amortized on a straight-line basis over their economic lives. Judgments are made in determining the estimated useful lives of long-lived assets and if or when an asset has been impaired. These estimates affect the amount of amortization expense recognized in the financial results. We assign lives to our assets based on specific legal and economic characteristics. We evaluate these assets with definite lives for potential impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable, and we record an impairment charge when the carrying amount of the long-lived asset is not recoverable and the carrying amount exceeds the estimated fair value. This impairment charge could have a material adverse effect on our consolidated results of operations.

#### ***Deferred Taxes***

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered estimated future taxable income and ongoing tax planning strategies in assessing the amount needed for the valuation allowance. Additionally, we look to the future reversal of existing taxable temporary differences, taxable income in prior carry-back years, the feasibility of tax planning strategies, and estimated future taxable income. The valuation allowance can be affected by changes to global tax laws, statutory tax rates, and future taxable income estimates.

The amount of income taxes we pay is subject to audits by federal, state, and foreign tax authorities, which may result in tax assessments. Our estimate for the potential outcome for any uncertain tax issue may be highly subjective and judgmental. We believe that we have adequately provided for any reasonably foreseeable outcome related to these tax issues. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities due to closure of income tax audits, new regulatory or judicial pronouncements, or other relevant events. As a result, our effective tax rate may fluctuate significantly on a quarterly basis.

The Tax Act made significant changes to federal tax law, including a reduction in the federal income tax rate from 35% to 21% effective January 1, 2018, and a one-time transition tax on previously deferred earnings of certain foreign subsidiaries. Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year “measurement period” similar to that used when accounting for business combinations. However, the measurement period is deemed to have ended earlier when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the Tax Cuts and Jobs Act.

We review all of our uncertain tax positions and make a determination as to whether our position is more likely than not to be sustained upon audit by taxing authorities. If a tax position meets this more-likely-than-not threshold, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more likely than not to be realized upon ultimate settlement or disposition of the underlying tax issue.

If actual results differ unfavorably from estimates used, we may not be able to realize all or part of our net deferred tax assets and additional valuation allowances may be required. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax basis of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. We periodically assess the likelihood that we will be able to recover our deferred tax assets and reflect any changes in our estimates in the valuation allowance, with a corresponding adjustment to earnings or equity, as appropriate.

#### **Recently Issued Accounting Standards**

Recently Issued Accounting Standards are described at Item 8. Financial Statements and Supplementary Data- Notes to Consolidated Financial Statements – Note 1. Nature of Business and Significant Accounting Policies.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not required.

#### **Item 8. Financial Statements and Supplementary Data**

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2017 and 2016

Consolidated Statements of Income for the Years Ended December 31, 2017 and 2016

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017 and 2016

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2017 and 2016

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016

Notes to Consolidated Financial Statements

**GAMING PARTNERS INTERNATIONAL CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of  
Gaming Partners International Corporation and Subsidiaries

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheets of Gaming Partners International Corporation and Subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

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San Diego, California  
March 23, 2018

We have served as the Company's auditor since 2006.

GAMING PARTNERS INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,

(in thousands, except share amounts and par value)

	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 14,064	\$ 10,604
Accounts receivable, net	7,415	11,069
Inventories	15,118	14,987
Prepaid expenses	1,290	812
Other current assets	2,836	1,620
<b>Total current assets</b>	<b>40,723</b>	<b>39,092</b>
Property and equipment, net	24,933	24,310
Goodwill	10,292	10,292
Intangible assets, net	1,676	1,818
Investment	411	-
Deferred income tax assets	675	1,579
Inventories, non-current	2,453	598
Other assets, non-current	2,240	2,310
<b>Total assets</b>	<b>\$ 83,403</b>	<b>\$ 79,999</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 4,743	\$ 3,466
Accrued liabilities	6,779	5,553
Customer deposits and deferred revenue	3,020	3,679
Current portion of long-term debt	1,401	1,367
Income taxes payable	693	531
<b>Total current liabilities</b>	<b>16,636</b>	<b>14,596</b>
Long-term debt	5,265	6,649
Other liabilities, non-current	186	1,221
<b>Total liabilities</b>	<b>22,087</b>	<b>22,466</b>
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Preferred stock, authorized 10,000,000 shares, \$0.01 par value, none issued and outstanding	-	-
Common stock, authorized 30,000,000 shares, \$0.01 par value, 8,223,077 and 7,932,094 shares issued and outstanding, respectively, as of December 31, 2017, and 8,219,577 and 7,928,594 shares issued and outstanding, respectively, as of December 31, 2016	82	82
Additional paid-in capital	19,272	20,031
Treasury stock at cost: 290,983 shares	(2,263)	(2,263)
Retained earnings	44,718	42,044
Accumulated other comprehensive loss	(493)	(2,361)
<b>Total stockholders' equity</b>	<b>61,316</b>	<b>57,533</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 83,403</b>	<b>\$ 79,999</b>

See Notes to Consolidated Financial Statements

GAMING PARTNERS INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,

(in thousands, except earnings per share)

	2017	2016
Revenues	\$ 80,602	\$ 82,139
Cost of revenues	57,924	56,803
<b>Gross profit</b>	<b>22,678</b>	<b>25,336</b>
Marketing and sales	6,619	6,407
General and administrative	9,016	10,181
Research and development	1,517	1,188
<b>Operating income</b>	<b>5,526</b>	<b>7,560</b>
Other expense, net	(85)	(34)
<b>Income before income taxes</b>	<b>5,441</b>	<b>7,526</b>
Income tax provision	1,815	2,343
<b>Net income</b>	<b>\$ 3,626</b>	<b>\$ 5,183</b>
Earnings per share:		
Basic	\$ 0.46	\$ 0.65
Diluted	\$ 0.45	\$ 0.64
Weighted-average shares of common stock outstanding:		
Basic	7,930	7,929
Diluted	8,045	8,042

See Notes to Consolidated Financial Statements

GAMING PARTNERS INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years Ended December 31,

(in thousands)

	<u>2017</u>	<u>2016</u>
Net income	\$ 3,626	\$ 5,183
Other comprehensive income (loss):		
Foreign currency translation adjustment, net of tax	1,868	(485)
Total comprehensive income	<u>\$ 5,494</u>	<u>\$ 4,698</u>

See Notes to Consolidated Financial Statements

GAMING PARTNERS INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
Years Ended December 31, 2017 and 2016

(in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
<b>Balance, January 1, 2016</b>	7,928,594	\$ 82	\$ 20,033	\$ (2,263)	\$ 37,812	\$ (1,876)	\$ 53,788
Net income	-	-	-	-	5,183	-	5,183
Stock compensation expense	-	-	86	-	-	-	86
Tax impacts of stock options	-	-	(88)	-	-	-	(88)
Dividend paid to shareholders	-	-	-	-	(951)	-	(951)
Foreign currency translation adjustment	-	-	-	-	-	(485)	(485)
<b>Balance, December 31, 2016</b>	<u>7,928,594</u>	<u>\$ 82</u>	<u>\$ 20,031</u>	<u>\$ (2,263)</u>	<u>\$ 42,044</u>	<u>\$ (2,361)</u>	<u>\$ 57,533</u>
Net income	-	-	-	-	3,626	-	3,626
Common stock options exercised	3,500	-	35	-	-	-	35
Stock compensation expense	-	-	104	-	-	-	104
Stock appreciation rights reclassification	-	-	(898)	-	-	-	(898)
Dividend paid to shareholders	-	-	-	-	(952)	-	(952)
Foreign currency translation adjustment	-	-	-	-	-	1,868	1,868
<b>Balance, December 31, 2017</b>	<u>7,932,094</u>	<u>\$ 82</u>	<u>\$ 19,272</u>	<u>\$ (2,263)</u>	<u>\$ 44,718</u>	<u>\$ (493)</u>	<u>\$ 61,316</u>

See Notes to Consolidated Financial Statements

GAMING PARTNERS INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

(in thousands)

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 3,626	\$ 5,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	4,359	3,319
Amortization of intangible assets	242	273
Recovery of bad debt	(498)	(102)
Inventory write-down	847	-
Deferred income taxes	922	592
Stock compensation expense	400	86
Tax benefit on exercise or forfeiture of stock options	-	(88)
Loss on sale or disposal of property and equipment	87	7
(Gain) on sale of marketable securities	-	(1)
Impairment of intangibles assets	-	414
Loss in equity investment	40	-
Change in operating assets and liabilities:		
Accounts receivable	4,175	(293)
Inventories	(2,227)	(4,909)
Prepaid expenses and other current assets	(1,589)	96
Non-current other assets	290	234
Accounts payable	1,185	(1,047)
Accrued liabilities and non current other liabilities	(1,198)	(1,525)
Customer deposits and deferred revenue	(683)	1,601
Income taxes payable	162	(293)
<b>Net cash provided by operating activities</b>	<u>10,140</u>	<u>3,547</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of marketable securities	-	3,556
Purchase of equity method investment	(451)	-
Purchase of licensing rights	(100)	-
Capital expenditures	(4,374)	(11,875)
<b>Net cash used in investing activities</b>	<u>(4,925)</u>	<u>(8,319)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on long-term debt	(1,349)	(1,330)
Dividends paid	(952)	(951)
Proceeds from exercise of stock options	35	-
Cash paid for exercise of stock appreciation rights	(42)	-
<b>Net cash used in financing activities</b>	<u>(2,308)</u>	<u>(2,281)</u>
<b>Effect of exchange rate changes on cash</b>	<u>553</u>	<u>(131)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>3,460</u>	<u>(7,184)</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>10,604</u>	<u>17,788</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 14,064</u>	<u>\$ 10,604</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 249	\$ 242
Cash paid, net of refunds received, for income taxes	\$ 1,229	\$ 2,126
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Stock appreciation rights liability, classified under accrued liabilities	\$ 1,153	\$ -
Property, plant and equipment acquired through accounts payable, accrued and non-current other liabilities	\$ 62	\$ 1,849

See Notes to Consolidated Financial Statements

## GAMING PARTNERS INTERNATIONAL CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1. Nature of Business and Significant Accounting Policies

##### *Organization and Nature of Business*

Gaming Partners International Corporation (GPIC, Our or the Company) is headquartered in North Las Vegas, Nevada. Our business activities include the manufacture and sale of casino currencies, playing cards, table accessories, table layouts, dice, gaming furniture, roulette wheels, and RFID readers and software, all of which are used with casino table games such as blackjack, poker, baccarat, craps, and roulette.

We have three operating subsidiaries: Gaming Partners International USA, Inc. (GPI USA) (including GPI Mexicana S.A. de C.V. (GPI Mexicana), our maquiladora manufacturing operation in Mexico, and GPI USA Blue Springs, our manufacturing facility in Missouri); Gaming Partners International SAS (GPI SAS); and Gaming Partners International Asia Limited (GPI Asia). Our subsidiaries have the following distribution and product focus:

- GPI USA sells in the United States, Canada, the Caribbean, and Latin America. GPI USA sells our full product line, with most of the products manufactured in either San Luis Rio Colorado, Mexico, or Blue Springs, Missouri. The remainder is either manufactured in France or purchased from United States vendors. We warehouse inventory in San Luis, Arizona; Blue Springs, Missouri; and North Las Vegas, Nevada. We have sales offices in North Las Vegas, Nevada; Atlantic City, New Jersey; Gulfport, Mississippi; and Blue Springs, Missouri.
- GPI SAS sells primarily in Europe and Africa out of its office in Beaune, France. GPI SAS predominantly sells casino currencies, including both American-style, known as chips, and European-style, known as plaques and jetons. Most of the products sold by GPI SAS are manufactured in France, with the remainder manufactured in Mexico.
- GPI Asia, located in Macau S.A.R., China, distributes our full product line in the Asia-Pacific region. GPI Asia also sells table layouts that it manufactures in Macau S.A.R.

We are one of the gaming industry's leading manufacturers and suppliers of casino table game equipment. We custom manufacture and supply casino currencies, playing cards, table layouts, gaming furniture, table accessories, dice, roulette wheels, and RFID readers and software, all of which are used with casino table games such as blackjack, poker, baccarat, craps, and roulette. Our products fall into two categories – non-consumable and consumable. Non-consumable products consist of casino currencies, gaming furniture, and RFID solutions. These products typically have a useful life of several years or longer. Sales of non-consumables are typically driven by casino openings, expansions, and rebranding, as well as replacements in the normal course of business. Consumable products consist of playing cards, table accessories, table layouts, and dice. These products each have a useful life that ranges from several hours for playing cards and dice to several months for layouts. Casinos tend to buy these products annually if not more frequently.

##### *Significant Accounting Policies*

**Basis of Consolidation and Presentation.** The consolidated financial statements include the accounts of GPIC and its wholly-owned subsidiaries GPI USA, GPI SAS, GPI Asia and GPI Mexicana. We also include the income or loss earned on our equity method investments, based on our share of the Company's assets. All material intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. Certain amounts reported in prior years' consolidated financial statements have been reclassified to conform to the current presentation.

**Cash and Cash Equivalents.** We consider all highly-liquid investments with original maturities of three months or less to be cash and cash equivalents. We maintain cash and cash equivalents in various United States banks. Several accounts are in excess of the federally-insured limit of \$250,000. We also maintain cash and cash equivalents in foreign banks that are not insured.

**Fair Value of Financial Instruments.** The fair value of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and the current portion of long-term debt approximates the carrying amount of these financial instruments due to their short-term nature. The carrying values of the Company's long-term debt instruments are considered to approximate their fair values because the interest rates of these instruments are variable or comparable to current rates available to the Company.

**Marketable Securities.** We account for our investments in marketable securities as available-for-sale and, as such, they are recorded on our consolidated balance sheets at estimated fair value. Unrealized holding gains and losses are excluded from earnings and are, instead, reported within accumulated other comprehensive loss.

**Accounts Receivables and Customer Deposits.** We perform ongoing credit evaluations of our customers and for casino currency and most significant orders, such as those orders for casino openings, generally require a deposit prior to commencing work on a customer order. These customer deposits are classified as a current liability on the consolidated balance sheets. We also maintain an allowance for doubtful accounts to state trade receivables at their estimated realizable value. This allowance applies to all customers and is estimated based on a variety of factors, including the length of time the receivables are past due, economic conditions and trends, significant one-time events, and historical experience. Changes are made to the allowance based on our awareness of a particular customer's ability to meet its financial obligations. Receivables are written-off when management determines that collectability is remote.

**Inventories.** Inventories are stated at the lower of cost or an estimate of net realizable value. Cost is determined using a weighted-average method for GPI SAS and a first-in, first-out method for GPI USA and GPI Asia. Market value is determined by comparing inventory item carrying values to estimates of net realizable value. The analysis of net realizable value includes reviewing overall inventory levels, historical and projected sales, usage of these items, the projected markets for our products, and selling costs. Inventory that we estimate will not be used within one year is considered non-current inventory. Inventory that we estimate will not be used within the next three years is written down.

**Property and Equipment.** Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method for financial reporting purposes over the following estimated useful lives:

	<u>Years</u>
Buildings and Improvements	3 - 40
Equipment and Furniture	2 - 15
Vehicles	5 - 7

**Goodwill.** Goodwill is recorded when the consideration paid for an acquisition exceeds the fair value of net tangible and intangible assets acquired. Goodwill is measured and tested for impairment on an annual basis or more frequently if we believe indicators of impairment exist. We test goodwill for impairment using qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, no further testing is performed. If it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we perform a quantitative two-step impairment test. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds fair value, then the second step is used to measure the amount of impairment loss.

**Long-Lived and Intangible Assets.** We evaluate the carrying value of long-lived assets (including property and equipment and intangible assets) for possible impairment when events or change in circumstances indicate that the carrying value of an asset may not be recoverable. In general, we will identify a potential impairment loss when the sum of undiscounted expected cash flows from the asset is less than the carrying amount of such asset. We record an impairment loss when the carrying amount of the long-lived asset is not recoverable and the carrying amount exceeds the estimated fair value. Intangible assets, such as patents and trademarks, are amortized using the straight-line method over their economic lives.

**Revenue Recognition.** For casino table game product sales, we record revenue, net of excise and sales taxes, when it is realized, or realizable, and earned. We consider these criteria met when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, collectability is reasonably assured and, if required, acceptance is received from the customer. Shipping costs billed to our customers are reflected in revenues, with the related expense included in cost of revenues. Sales tax collected from customers is excluded from revenue and included in accrued expenses.

We occasionally enter into multiple-element arrangements with our customers to provide RFID solutions. Such transactions may include deliverables such as RFID equipment, installation and training services, embedded RFID software licenses, and limited software support services. In such arrangements, RFID equipment and embedded RFID software work together to deliver the functionality purchased by our customer. Therefore, we apply the provisions of multiple-element accounting to separate the deliverables and allocate the total arrangement consideration based upon relative estimated selling prices. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. For RFID equipment and related services, revenue generally is recorded when all customer-defined acceptance criteria are satisfied. For RFID software support services, revenue generally is amortized over the term of the support contract.

On occasion, we may recognize revenue under a bill and hold arrangement. Under a bill and hold arrangement, revenue is recognized when the product is manufactured, completed, invoiced, and segregated from the seller's other inventory so that it is not subjected to being used to fill other orders. Upon invoicing under this arrangement, ownership has passed to the buyer with no residual warranty obligation or right of return such that the earnings process is complete. The customer must request a bill and hold arrangement, preferably in writing, must commit to the purchase, and the delivery date must be fixed.

**Research and Development.** Research and development costs are the costs related to developing new and improved products and manufacturing processes, including staff compensation and related expenses, subcontract costs, materials, and supplies. Such costs are charged to expense when incurred and are included in our consolidated statements of income.

**Income Taxes.** We recognize a current tax liability or asset for estimated taxes payable or refundable on tax returns for the current year and a deferred non-current tax liability or asset for estimated future tax effects, attributable to temporary differences and carryforwards.

The Tax Act made significant changes to federal tax law, including a reduction in the federal income tax rate from 35% to 21% effective January 1, 2018, and a one-time transition tax on previously deferred earnings of certain foreign subsidiaries. Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year "measurement period" similar to that used when accounting for business combinations. However, the measurement period is deemed to have ended earlier when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the Tax Cuts and Jobs Act.

GPIC and its subsidiaries file separate income tax returns in their respective jurisdictions. Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future income taxes.

We review all of our tax positions and make a determination as to whether our position is more likely than not to be sustained upon examination by tax authorities. If a tax position meets the more-likely-than-not standard, then the related tax benefit is measured based on the cumulative probability that the amount is more likely than not to be realized upon ultimate settlement or disposition of the underlying issue. We recognize interest and penalties related to unrecognized tax positions in the provision for income taxes on our consolidated statements of income.

**Foreign Currency Transactions.** The financial statements of GPI SAS are measured using the euro as the functional currency. Assets and liabilities of GPI SAS are translated into the U.S. dollar at exchange rates at the balance sheet date. Revenues and expenses are translated into the U.S. dollar at average rates of exchange in effect during the year. The resulting cumulative translation adjustments are recorded within accumulated other comprehensive loss.

The financial statements of GPI Asia and GPI Mexicana are measured using the U.S. dollar as the functional currency. Non-monetary assets and liabilities are translated at historical exchange rates, and monetary assets and liabilities are translated at current exchange rates. Exchange gains and losses arising from translation are included in other income and expense in the consolidated statements of income.

Transaction gains and losses that arise from exchange rate fluctuations on transactions with third parties denominated in a currency other than the functional currency are included in the results of operations as incurred.

**Other Comprehensive Loss.** Comprehensive loss includes net income and foreign currency translation adjustments.

**Estimates.** The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions have been made in determining the allowance for doubtful accounts receivable; write-downs of slow moving, excess, and obsolete inventories; the depreciable lives of fixed and intangible assets; estimates for the recoverability of long-lived assets, including intangible assets; the recoverability of deferred tax assets; and potential exposures relating to litigation, claims, and assessments. Actual results could differ from those estimates and assumptions.

**Recently Issued Accounting Standards.** In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-17, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company does not expect the adoption of this guidance to significantly impact the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. These amendments eliminate Step 2 from the goodwill impairment test. The amendments are effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not expect the adoption of this guidance to significantly impact the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. These amendments clarify the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The amendments are effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company does not expect the adoption of this guidance to significantly impact the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. These amendments require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments eliminate the tax exception for an intra-entity transfer of an asset other than inventory. The ASU becomes effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Entities are required to adopt the ASU using a modified retrospective approach with a cumulative adjustment to retained earnings for previously unrecognized income tax expense. The Company anticipates a decrease in retained earnings of \$0.4 million upon adoption related to the unrecognized income tax effects of asset transfers that occurred prior to adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by reporting lease assets and lease liabilities, both finance (capital) and operating leases, on the balance sheet and disclosing key information about leasing arrangements. For public companies, the updated guidance is effective for the financial statements issued for fiscal years beginning after December 15, 2018 (including interim periods within those fiscal years). Early adoption is permitted. The Company is currently evaluating the impact of adoption and will consult with accounting experts as needed to assist with the implementation of this standard.

In May 2014, the FASB issued ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)*. This guidance applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This guidance supersedes existing revenue recognition guidance, including most industry-specific guidance, as well as certain related guidance on accounting for contract costs. To further assist with adoption and implementation of ASU 2014-09, the FASB issued the following ASUs:

- ASU 2016-08 (Issued March 2016) - *Principal versus Agent Consideration (Reporting Revenue Gross versus Net)*
- ASU 2016-10 (Issued April 2016) - *Identifying Performance Obligations and Licensing*
- ASU 2016-12 (Issued May 2016) - *Narrow-Scope Improvements and Practical Expedients*

•ASU 2016-20 (Issued December 2016) - *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*

The guidance provides for a five-step model to determine the revenue recognized for the transfer of goods or services to customers that reflects the expected entitled consideration in exchange for those goods or services. It also provides clarification for principal versus agent considerations and identifying performance obligations. In addition, the FASB introduced practical expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes. Financial statement disclosures required under the guidance will enable users to understand the nature, amount, timing, judgments, and uncertainty of revenue and cash flows relating to customer contracts. The two permitted transition methods under the guidance are the full retrospective approach or a cumulative effect adjustment to the opening retained earnings in the year of adoption (cumulative effect approach). The guidance is effective in 2018. The Company will adopt it in the first quarter of 2018 under the modified retrospective method.

Through our comprehensive approach we concluded that this new guidance will not have a material impact, on our consolidated financial statements. We did not need to significantly change our business processes, systems and controls to support recognition and disclosure under the new guidance.

**Recently Adopted Accounting Standards.** In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718)*, to simplify several aspects of the accounting for share-based payment award transactions including: income tax consequences; classification of awards as either equity or liabilities; and classification on the statement of cash flows. The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. During the first quarter of 2017, the Company adopted this guidance on a prospective basis. The adoption of this guidance did not have a significant impact on the consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The guidance applies to any entity measuring inventory using first-in, first-out or average cost. The main provision of this guidance requires an entity to measure inventory within the scope of this ASU at the lower of cost and net realizable value. During the first quarter of 2017, the Company adopted this guidance prospectively. The adoption of this guidance had no impact on the consolidated statements of income and comprehensive income.

#### Note 2. Dolphin Asset Acquisition

On May 11, 2016, the Company entered into and closed an Asset Purchase Agreement to purchase certain assets used in the design and manufacture of casino currency from Dolphin Products Limited (Dolphin), a wholly owned subsidiary of Entertainment Gaming Asia Inc. (EGT). The purchased assets were primarily equipment and inventory with allocated costs of \$5.7 million and \$1.6 million, respectively.

The acquisition was treated as an asset acquisition. The total cost of the acquisition was \$7.3 million, with \$5.1 million paid in 2016, \$1.1 million paid in 2017 and \$1.1 million, included in accrued liabilities, to be paid in May 2018.

#### Note 3. Cash and Cash Equivalents

We hold our cash and cash equivalents in various financial institutions in the countries shown below. Substantially all accounts have balances in excess of government-insured limits. The following table summarizes our holdings at December 31 (in thousands):

	<u>2017</u>	<u>2016</u>
France	\$ 6,611	\$ 3,263
United States (including Mexico)	4,936	3,237
Macau S.A.R., China	2,517	4,104
Total	<u>\$ 14,064</u>	<u>\$ 10,604</u>

#### Note 4. Accounts Receivable and Allowance for Doubtful Accounts

At December 31, 2017, no casino customer accounted for 10% or more of our accounts receivable balance. At December 31, 2016, one casino customer accounted for 25% of our accounts receivable balance.

The allowance for doubtful accounts consists of the following (in thousands):

	Balance at Beginning of Year	Reduction of provision	Write-offs, Net of Recoveries	Exchange Rate Effect	Balance at End of Period
2017	\$ 804	\$ (498)	\$ -	\$ 1	\$ 307
2016	\$ 990	\$ (102)	\$ (84)	\$ -	\$ 804

#### Note 5. Inventories

Inventories consist of the following at December 31 (in thousands):

	2017	2016
Raw materials	\$ 11,637	\$ 11,129
Work in progress	2,432	1,137
Finished goods	3,502	3,319
Total inventories	\$ 17,571	\$ 15,585

We booked an exceptional \$0.8 million inventory write-down for Dolphin related raw materials acquired in 2016. We estimate this inventory will not be used within the next three years.

We classified a portion of our inventories as non-current because we currently do not expect this portion to be used within one year. The classification of our inventories on our consolidated balance sheets is as follows at December 31 (in thousands):

	2017	2016
Current	\$ 15,118	\$ 14,987
Non-current	2,453	598
Total inventories	\$ 17,571	\$ 15,585

The increase of \$1.9 million in non-current inventory is mainly due to \$0.9 million of bulk purchases of various raw materials. In addition, \$0.6 million of Dolphin related raw materials acquired in 2016 was moved to non-current inventory in accordance with our accounting policies. We currently believe this inventory will be used within three years.

## Note 6. Other Current Assets

Other current assets consist of the following at December 31 (in thousands):

	2017	2016
Income tax-related assets	\$ 1,435	\$ 722
Refundable value-added tax	996	516
Deposits	327	328
Other, net	78	54
Total other current assets	<u>\$ 2,836</u>	<u>\$ 1,620</u>

## Note 7. Property and Equipment

Property and equipment consist of the following at December 31 (in thousands):

	2017	2016
Land	\$ 669	\$ 636
Buildings and improvements	11,196	10,280
Equipment and furniture	40,714	35,618
Vehicles	408	379
Construction in progress	529	1,327
	53,516	48,240
Less accumulated depreciation	(28,583)	(23,930)
Property and equipment, net	<u>\$ 24,933</u>	<u>\$ 24,310</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$4.4 million and \$3.3 million, respectively. At December 31, 2017 the \$0.5 million of construction in progress was primarily related to various equipment. At December 31, 2016 the \$1.3 million of construction in progress was primarily related to Dolphin assets waiting to be placed in service and the building expansion at our Blue Springs, Missouri facility.

## Note 8. Goodwill and Intangible Assets

We have goodwill of \$10.3 million as of December 31, 2017 arising from the GemGroup acquisition in 2014.

Intangible assets consist of the following at December 31 (dollars in thousands):

	2017			2016			Estimated Useful Life (Years)
	Gross Carrying Amount	Accum Amort	Net Carrying Amount	Gross Carrying Amount	Accum Amort	Net Carrying Amount	
Trademarks	\$ 1,711	\$ (700)	\$ 1,011	\$ 1,711	\$ (579)	\$ 1,132	10-15
Customer list	897	(353)	544	897	(278)	619	10-15
Patents	542	(534)	8	542	(527)	15	14
Other intangible assets	472	(359)	113	372	(320)	52	3-10
Total intangible assets	<u>\$ 3,622</u>	<u>\$ (1,946)</u>	<u>\$ 1,676</u>	<u>\$ 3,522</u>	<u>\$ (1,704)</u>	<u>\$ 1,818</u>	

Amortization expense for intangible assets for the years ended December 31, 2017 and 2016 was \$242,000 and \$273,000, respectively.

In 2016, a \$414,000 impairment loss for a decrease in fair value of a trademark and a customer list was recorded under general and administrative expenses. The decrease in fair value was the result of the loss of two customers.

The following table provides estimated amortization expense for the years ending December 31 (in thousands):

Year	Amortization Expense
2018	\$ 229
2019	223
2020	222
2021	213
2022	155
Thereafter	634
Total	<u>\$ 1,676</u>

#### Note 9. Equity Method Investment

On May 31, 2017, GPIC acquired 20% of the outstanding shares of Onlive Gaming SAS for \$451,000. Onlive Gaming SAS is a company dedicated to the development of electronic products using the RFID technology. The Company used the equity method to account for this investment because of its ability to exercise significant influence, but not control, over the operating and financial policies of Onlive Gaming SAS. Since the acquisition, we reduced the book value of the investment by \$40,000, which represents our percentage of the net loss.

#### Note 10. Accrued Liabilities

Accrued liabilities consist of the following at December 31 (in thousands):

	2017	2016
Accrued salaries, wages, and related costs	\$ 1,359	\$ 1,037
Stock appreciation rights liability	1,153	-
Accrued fixed asset acquisition liability	1,076	1,076
Accrued vacation	964	894
Accrued bonuses and commissions	953	1,221
Miscellaneous taxes	560	578
Other	714	747
Total accrued liabilities	<u>\$ 6,779</u>	<u>\$ 5,553</u>

The Stock appreciation rights liability is the result of the Board of Director's decision to grant stock appreciation rights to certain non-employee directors (Note 16).

The accrued fixed asset acquisition liability is the balance owed to EGT and resulting from the Dolphin acquisition (Note 2).

#### Note 11. Debt

On June 26, 2015, the Company entered into a Credit Agreement with Nevada State Bank to borrow up to a combined \$15.0 million, consisting of a \$10.0 million seven-year term loan and a \$5.0 million five-year revolving loan. The Company borrowed the full amount under the term loan and has not drawn on funds under the revolving loan. The term loan will mature on June 26, 2022, and the revolving loan will mature on June 26, 2020. The Credit Agreement contains customary representations, warranties, and events of default, and affirmative, negative and financial covenants. The covenants contain, among other things, limitations on the Company's and its subsidiaries' ability to merge, consolidate, dispose of assets, or incur liens or certain indebtedness. The Company is required to maintain a fixed charge coverage ratio greater than 1.15 to 1.00 and a leverage ratio less than 3.00 to 1.00. The Company is in compliance with all financial covenants as of December 31, 2017.

Interest on funds borrowed under the term loan and the revolving loan are charged at a rate per annum equal to LIBOR plus 2.25%. The term loan has a straight-line seven year amortization schedule.

At December 31, 2017, estimated repayment obligations for the principal balance of long-term debt are as follows (in thousands):

Year	Long Term Debt
2018	\$ 1,401
2019	1,453
2020	1,506
2021	1,561
2022	745
	<u>\$ 6,666</u>

#### Note 12. Commitments and Contingencies

**Operating Lease Commitments.** The Company has various operating leases that are used in the normal course of business. The operating leases consist of buildings and equipment that expire at various points through 2023.

Operating lease expense for the years ended December 31, 2017 and 2016 was \$1.0 million and \$1.7 million, respectively. The Company's operating lease expenses are recognized on a straight-line basis.

The following schedule reflects our future minimum lease payments under operating leases, including related-party payments described at Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements - Note 20. Related-Party Transactions for the years ending December 31 (in thousands):

Year	Minimum Lease Payments
2018	\$ 899
2019	737
2020	620
2021	625
2022	564
Thereafter	338
Total	<u>\$ 3,783</u>

**Legal Proceedings and Contingencies.** Liabilities for material claims against the Company are accrued when a loss is considered probable and can be reasonably estimated. Legal costs associated with claims are expensed as incurred.

From time to time we are engaged in disputes and claims that arise in the normal course of business. We believe that the ultimate outcome of these proceedings will not have a material adverse impact on our consolidated financial position or results of operations, but the outcome of these actions is inherently difficult to predict. There can be no assurance that we will prevail in any such litigation. Liabilities for material claims against us are accrued when a loss is considered probable and can be reasonably estimated. Legal costs associated with claims are expensed as incurred.

**Employment Agreements.** The Company has employment agreements with key employees which include severance commitments in the event the Company terminates the employee without cause. Total commitments under the agreements aggregate approximately \$0.6 million as of December 31, 2017.

#### Note 13. Geographic and Product Line Information

We manufacture and sell casino table game equipment in one operating segment - casino table game products. Although the Company derives its revenues from a number of different product lines, the Company neither allocates resources based on the operating results from the individual product lines, nor manages each individual product line as a separate business unit. Our chief operating decision maker is our Chief Executive Officer (CEO). The CEO manages our operations on a consolidated basis to make decisions about overall corporate resource allocation and to assess overall corporate profitability. Our CEO is also the chief operating manager for each of our entities in the United States, France, and Macau S.A.R.; that is, the individual locations do not have "segment," or "product line," managers who report to our CEO.

The following table presents certain data by geographic area for the years ended December 31 (dollars in thousands):

	2017		2016	
<b>Revenues</b>				
The Americas	\$ 54,638	67.8%	\$ 56,247	68.5%
Asia-Pacific	23,200	28.8%	22,080	26.9%
Europe and Africa	2,764	3.4%	3,812	4.6%
<b>Total</b>	<b>\$ 80,602</b>	<b>100.0%</b>	<b>\$ 82,139</b>	<b>100.0%</b>

The following table presents our net sales by product line for the years ended December 31 (dollars in thousands):

	2017		2016	
Casino currency without RFID	\$ 14,754	18.3%	\$ 15,698	19.1%
Casino currency with RFID	18,041	22.4%	16,123	19.6%
<b>Total casino currency</b>	<b>32,795</b>	<b>40.7%</b>	<b>31,821</b>	<b>38.7%</b>
Playing cards	24,864	30.8%	26,708	32.5%
Table accessories and other products	6,802	8.4%	6,639	8.1%
Table layouts	5,315	6.6%	5,259	6.4%
Gaming furniture	3,126	3.9%	2,645	3.2%
Dice	2,791	3.5%	2,859	3.5%
RFID solutions	1,623	2.0%	3,000	3.7%
Shipping	3,286	4.1%	3,208	3.9%
<b>Total</b>	<b>\$ 80,602</b>	<b>100.0%</b>	<b>\$ 82,139</b>	<b>100.0%</b>

In 2017 and 2016, we had no casino customer that accounted for 10% or more of revenues.

The following table presents our property and equipment, net by geographic area at December 31 (in thousands):

	2017	2016
United States	\$ 13,708	\$ 13,242
Mexico	6,851	6,142
France	3,936	4,614
Macau S.A.R., China	438	312
<b>Total</b>	<b>\$ 24,933</b>	<b>\$ 24,310</b>

The following table presents our intangible assets, net by geographic area at December 31 (in thousands):

	<u>2017</u>	<u>2016</u>
United States	\$ 1,634	\$ 1,772
Macau S.A.R., China	42	46
Total	<u>\$ 1,676</u>	<u>\$ 1,818</u>

#### Note 14. Pension Plans

For employees of GPI SAS, we sponsor a non-contributory, defined-benefit pension plan (the Pension Plan) which funds a mandatory payment when employees retire at age 65. The lump-sum benefit amount is based on years of service, job classification, and compensation in the 12 months prior to retirement. The following amounts relate to the Pension Plan at December 31 (in thousands):

	<u>2017</u>	<u>2016</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 497	\$ 458
Service cost	31	28
Interest cost	8	10
Actuarial loss	29	38
Benefits paid	(8)	(18)
Effect of foreign exchange rate changes	73	(19)
Benefit obligation at end of year	<u>\$ 630</u>	<u>\$ 497</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 317	\$ 362
Actual (loss) return on plan assets	8	(34)
Effect of foreign exchange rate changes	45	(11)
Fair value of plan assets at end of year	<u>370</u>	<u>317</u>
Funded status and accrued benefit cost	<u>\$ (260)</u>	<u>\$ (180)</u>

At December 31, 2017 and 2016, the accrued benefit cost of \$0.3 million and \$0.2 million, respectively, was recognized in the consolidated balance sheet in other accrued liabilities.

Pension Plan assets are measured using a Level 1 valuation methodology and consist of the following asset funds at December 31 (in thousands):

	<u>2017</u>	<u>2016</u>
Worldwide bond fund	\$ 179	\$ 158
Guaranteed equity fund	34	31
European equity fund	157	128
Fair value of plan assets at end of year	<u>\$ 370</u>	<u>\$ 317</u>

We did not make any contribution to the Pension Plan in either 2017 or 2016.

The weighted-average assumptions used in measuring the net periodic benefit cost and Pension Plan obligations as of December 31 are:

	<u>2017</u>	<u>2016</u>
Net periodic benefit cost:		
Discount rate	1.30%	1.50%
Pension Plan obligations:		
Discount rate	1.30%	1.50%
Rate of compensation increase	2.00%	2.00%

The accumulated benefit obligation was \$0.5 million and \$0.4 million as of December 31, 2017 and 2016, respectively.

Net pension expense consisted of the following for the years ended December 31 (in thousands):

	2017	2016
Service-cost benefits earned during the period	\$ 31	\$ 28
Interest expense on benefit obligation	8	10
Actual (return) loss on plan assets	(8)	34
Actuarial loss	29	38
Net pension expense	<u>\$ 60</u>	<u>\$ 110</u>

Projected benefit payments from the Pension Plan as of December 31, 2017 are estimated at \$8,000 for 2018 through 2021, and an aggregate of \$0.2 million for 2022 through 2025.

We also sponsor a 401(k) plan for employees in the United States (the 401K Plan) who have worked for us for longer than six months and are 21 years of age or older. Our contributions to the 401K Plan are based on the amounts contributed by eligible employees. Eligible employees can elect to contribute into the 401K Plan up to the lesser of the Internal Revenue Service annual limit or 75 percent of their earnings. We contribute \$0.50 for each \$1.00 contributed by a participant in the 401K Plan up to 4 percent of the participant's wages. Our contributions to the 401K Plan for each of the years ended December 31, 2017 and 2016 was \$0.1 million.

#### Note 15. Stockholders' Equity

On December 1, 2011, the Board of Directors approved a stock repurchase program which authorized the repurchase of up to 5%, or 409,951 shares, of our common stock. On November 30, 2012, the Board of Directors increased the number of shares available for repurchase to 498,512 shares. From the program's inception through December 31, 2017, we have repurchased an aggregate of 282,922 shares of our common stock at a cost of \$2.1 million, or a weighted-average price of \$7.30 per share. No shares were repurchased during 2017 or 2016, and there is no assurance that we will repurchase any additional shares under the repurchase program. As of December 31, 2017, there remained 215,590 shares authorized for repurchase. Repurchases are subject to market conditions, share price, and other factors, as well as periodic review by the Board of Directors.

In each of December 2017 and December 2016 we paid a cash dividend of \$0.12 per issued and outstanding common share for an aggregate dividend of \$1.0 million in each year.

#### Note 16. Stock Option Programs and Share-based Compensation Expense

We have one active stock option plan which is the 1994 Directors' Stock Option Plan, as amended and extended (the Directors' Plan). We are also party to a stock option agreement (the Gronau Agreement) with our CEO, Gregory S. Gronau. The Directors' Plan and the Gronau Agreement were both approved by our stockholders, except for the most recent amendments to the Directors' Plan adopted by the Board of Directors on December 26, 2017, described below, which are being submitted to the stockholders for approval in May 2018.

The Directors' Plan provides that each non-employee director, upon joining the Board of Directors, will receive an initial option to purchase 6,000 shares of common stock. The initial option grant vests over a three-year period, with one-third of the option grant vesting at the end of each year. At the beginning of the fourth year of service on the Board of Directors, and each year thereafter, each non-employee director receives an annual grant to purchase 2,000 shares of common stock. In addition, each non-employee director annually receives options to purchase 1,500 shares of common stock for serving on certain committees of the Board of Directors. Options granted after the initial option grant vest immediately and are exercisable after six months.

The Board of Directors may grant discretionary stock options covering up to 100,000 shares to non-employee directors. Discretionary stock options vest immediately and are exercisable after six months. There were no discretionary stock option grants in 2017 or 2016. A maximum of 450,000 shares of common stock may be issued pursuant to options granted under the Directors' Plan.

On December 26, 2017, the Board of Directors adopted amendments to the Directors' Plan to extend the term of the plan from January 31, 2019 to January 31, 2022 and allow for the grant of stock appreciation rights to non-employee directors in addition to grants of stock options. Each stock appreciation right shall entitle a non-employee director to surrender to GPIC a vested option and to receive from GPIC in exchange a cash payment. Non-employee directors currently hold outstanding stock options which will expire beginning in 2018, unless exercised. The Board of Directors adopted amendments to the Directors' Plan to allow for the grant of stock appreciation rights which would entitle the non-employee director to receive the amount by which the fair market value of a share of common stock immediately prior to exercise exceeds the related stock option exercise price. The amendments to the Directors' Plan are being submitted to the Company's stockholders for approval at the annual meeting in May 2018.

On December 26, 2017, the Board of Directors, upon the recommendation of our Compensation Committee, granted stock appreciation rights to our non-employee directors relating to outstanding stock options for an aggregate 262,750 shares of common stock previously granted to them under the Directors' Plan which expire after December 26, 2017. As a result of this decision we modified the accounting treatment of the outstanding stock options. We accounted for a \$1.2 million current liability which was generated by a \$0.3 million stock compensation expense and a \$0.9 million reclassification from additional paid in capital. This liability represents the fair value of all outstanding options as of December 31, 2017. These grants of stock appreciation rights to our non-employee directors are being submitted to the Company's stockholders for ratification at the annual meeting in May 2018.

Mr. Gronau, was granted an option to purchase 150,000 shares of our common stock in 2009 pursuant to the Gronau Agreement. The stock option has a ten-year term and vested over a five-year period as follows: 20,000 shares on the first anniversary of the date of the grant; 30,000 shares on each of the second, third, and fourth anniversaries; and 40,000 shares on the fifth anniversary of the date of grant.

The following table summarizes stock option activity for the years ended December 31, 2017 and 2016:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2016	392,750	\$ 7.65	4.3	\$ 782
Granted	25,500	9.83		
Expired	(15,500)	19.40		
Outstanding at December 31, 2016	402,750	7.34	3.9	\$ 1,855
Granted	25,500	10.97		
Expired	(12,000)	10.72		
Exercised	(49,500)	7.07		
Outstanding at December 31, 2017	366,750	\$ 7.35	3.8	\$ 1,431
Exercisable at December 31, 2017	354,750	\$ 7.24	3.6	\$ 1,425

Of the 49,500 options exercised in 2017, 46,000 were surrendered in connection with the exercise of stock appreciation rights, subject to stockholder approval at the annual meeting in May 2018. At December 31, 2017, 36,000 stock appreciation rights remained to be paid. The liability related to the surrender of those options was accrued under accrued liabilities.

For the year ended December 31, 2017, the total intrinsic value of options exercised was \$0.2 million. For the year ended December 31, 2016, there were no options exercised.

We estimate the fair value of each stock option award on the grant date, and at each subsequent remeasurement, using the Black-Scholes valuation model. Dividends and expected volatility are based on historical factors related to our common stock. The risk-free rate is based on United States Treasury rates appropriate for the expected term, which is based on the contractual term of the options, as well as historical exercise and termination behavior.

The following table summarizes the weighted-average assumptions used, and related information, for option activity for the years indicated.

	2017	2016
<b>Option valuation assumptions:</b>		
Dividend yield	1.1%	0.0%
Expected volatility	36.5%	34.1%
Risk-free interest rate	1.91%	1.36%
Expected term of options	5.6 yrs	5.6 yrs
Weighted-average fair value of options granted during the period	\$ 4.05	\$ 3.35

The following table summarizes our reported stock compensation expense, which is included in general and administrative expenses in our consolidated statements of income as of December 31 (in thousands):

	2017	2016
Stock compensation	\$ 400	\$ 86
Estimated tax benefit	(144)	(31)
Total stock compensation, net of tax benefit	\$ 256	\$ 55

#### Note 17. Other Income and Expense

Other income and expense consist of the following for the years ended December 31 (in thousands):

	2017	2016
Interest income	\$ 1	\$ 23
Interest expense	(249)	(242)
Gain on foreign currency transactions	182	187
Other expense, net	(19)	(2)
Total other expense, net	\$ (85)	\$ (34)

#### Note 18. Income Taxes

New tax legislation, commonly referred to as the Tax Cuts and Jobs Act, was enacted on December 22, 2017. ASC 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions is for tax years beginning after December 31, 2017, or in the case of certain other provisions, January 1, 2018. As such, January 1, 2018 would be the first day of the taxable year for purposes of applying the effective date of the new tax legislation for provisions which are applicable to tax years beginning after December 31, 2017. New tax legislation provisions that are applicable for the tax year ended December 31, 2017 have been accounted for within the current period ended December 31, 2017.

Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year "measurement period" similar to that used when accounting for business combinations. However, the measurement period is deemed to have ended earlier when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the Tax Cuts and Jobs Act.

The Company has determined a reasonable estimate related to the reduction in the U.S. corporate income tax rate to 21%, which resulted in the Company reporting additional income tax expense of \$0.3 million as a result of the Tax Act. This increase in tax expense is comprised of \$0.3 million of deferred tax expense due to the remeasurement of deferred tax assets at the 21% tax rate, and \$1.4 million of additional tax expense related to a one-time transition tax which is completely offset by associated deferred tax assets for foreign tax credits. The provisional amount could be impacted by the Company's assessment of 100% bonus depreciation for qualified assets placed in service after September 27, 2017. A reasonable estimate cannot yet be made with respect to the global intangible low-taxed income ("GILTI") in accordance with the enactment of the Tax Act. The Company requires additional time to analyze the impacts of the legislative change.

The following table provides an analysis of our provision for income taxes for the years ended December 31 (in thousands):

	<u>2017</u>	<u>2016</u>
<b>Current:</b>		
U.S. Federal	\$ (47)	\$ 1,035
U.S. State	182	43
Foreign	494	619
<b>Total Current</b>	<u>629</u>	<u>1,697</u>
<b>Deferred:</b>		
U.S. Federal	759	666
U.S. State	48	59
Foreign	379	(79)
<b>Total Deferred</b>	<u>1,186</u>	<u>646</u>
<b>Income tax provision (benefit)</b>	<u>\$ 1,815</u>	<u>\$ 2,343</u>

Income before income taxes consisted of the following for the years ended December 31 (in thousands):

	<u>2017</u>	<u>2016</u>
Foreign	\$ 5,185	\$ 4,532
United States	256	2,994
<b>Income before income taxes</b>	<u>\$ 5,441</u>	<u>\$ 7,526</u>

A reconciliation of our income tax expense as compared to the tax expense calculated by applying the statutory federal tax rate to income before income taxes for the years ended December 31 is as follows:

	<u>2017</u>	<u>2016</u>
Computed expected income tax expense	34.0%	34.0%
State income taxes, net of federal benefits	1.2%	1.0%
Subpart F income adjustment	7.4%	8.6%
Foreign rate differential (excluding research credit)	(13.3)%	(10.2)%
Impact of the Tax Act	5.2%	-
French research and low wage credit	(4.3)%	(3.0)%
Other, net	3.1%	0.7%
<b>Income tax expense</b>	<u>33.4%</u>	<u>31.1%</u>

The primary components of net deferred income tax assets at December 31 are as follows (in thousands):

	2017	2016
<b>Deferred tax assets:</b>		
Tax credits	\$ 2	\$ 1,549
Property and equipment	-	357
Stock compensation	371	557
French deferred assets	367	410
Bad debt reserves and inventory	608	774
Accrued Expenses	188	321
Operating loss carry forwards	-	7
Other	6	16
Total deferred tax assets	<u>1,542</u>	<u>3,991</u>
<b>Deferred tax liabilities:</b>		
Excess book basis in shares of GPI-SAS	\$ -	\$ 1,547
French deferred liabilities	246	262
Property and equipment	80	-
Intangible assets	541	603
Total deferred tax liabilities	<u>867</u>	<u>2,412</u>
Deferred tax assets, net	<u>\$ 675</u>	<u>\$ 1,579</u>

We adopted FASB ASU No. 2016-09, regarding several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, in the current period on a prospective basis. As a result of the Company's application of ASU No. 2016-09, certain excess tax benefits at the time of exercise are recognized as income tax benefits, while tax deficiencies of an option at the time of exercise or expiring unexercised are recognized as income tax expense in the statement of income. As of December 31, 2017, the adoption of ASU No. 2016-09 has not materially impacted our consolidated financial statements.

Unrepatriated earnings were approximately \$6.2 million as of December 31, 2017. Except for the \$2.0 million earnings from GPI SAS, these unrepatriated earnings are considered permanently reinvested, since it is management's intention to reinvest these foreign earnings in future operations. We project that we will have sufficient cash flow in the U.S. and will not need to repatriate the foreign earnings from GPI Asia to finance U.S. operations. Except for the deemed dividends under Section 956 in 2015 and under Subpart F, we continue to assert that earnings from GPI Asia will be permanently reinvested.

We are subject to taxation in the U.S. and various states and foreign jurisdictions. With few exceptions, the tax years 2014 through 2017 remain open to examination under the statute of limitations by the U.S. Internal Revenue Service and various states for GPIC and GPI USA, by the French Tax Administration for GPI SAS, and by the Government of the Macau Special Administrative Region - Financial Services Bureau for GPI Asia. In 2015, the French Tax Administration started an examination of GPI SAS for tax years 2013 and 2012 that is on-going. In the first quarter of 2018, in connection with the FTA's examination of GPI SAS for tax years 2013 and 2012, GPI paid €1.4 million to the FTA. While we were legally obligated to pay this amount, which represents the FTA's calculation of the taxes owed, this payment does not represent a settlement nor the end of the examination and we are actively disputing the findings of the FTA. In addition to the on-going French Tax Administration examination of GPI SAS for tax years 2013 and 2012, the Company received notification in August 2017, of a federal income tax examination by the Internal Revenue Service for the 2015 tax year.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits, including estimated interest and penalties, is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 258	\$ 241
Foreign currency translation	36	17
Balance at end of year	<u>\$ 294</u>	<u>\$ 258</u>

All of the liability as of December 31, 2017 would affect our effective tax rate if recognized and amounts of interest and penalties are not expected to be significant. We anticipate that the balance of the unrecognized tax benefits will be eliminated within the next twelve months.

#### **Note 19. Earnings per Share**

The weighted-average number of common shares outstanding used in the computation of basic and diluted earnings per share is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Weighted-average number of common shares outstanding - basic	7,930	7,929
Potential dilution from equity grants	115	113
Weighted-average number of common shares outstanding - diluted	<u>8,045</u>	<u>8,042</u>

At December 31, 2017 we have certain outstanding stock options to purchase common stock which have exercise prices greater than the average market price. These anti-dilutive options have been excluded from the computation of diluted net income per share. Outstanding anti-dilutive options for the years ended December 31, 2017 and 2016 totaled to 13,018 and 38,077, respectively.

#### **Note 20. Related-Party Transactions**

We lease two manufacturing facilities totaling approximately 80,000 square feet located in San Luis Rio Colorado, Mexico, from an entity controlled by the family of Frank Moreno, the General Manager of GPI Mexicana. The facilities are leased through December 2023 at a monthly rent amount of \$0.31 per square foot, or approximately \$28,000. We also have an immaterial service agreement with a company owned by a relative of the General Manager.

In 2016, Alexandre Thieffry became our Executive Vice President of Finance. Mr. Alexandre Thieffry is the son of Alain Thieffry, our Chief Financial Officer and Chairperson of the Board. Mr. Alexandre Thieffry served as our Controller from 2011 through 2015.

Neither Mr. Moreno nor Alexandre Thieffry are directors or executive officers of the Company. Mr. Alain Thieffry is a director and executive officer of the Company. Our audit committee reviews any related party transactions involving our directors and executive officers.

#### **Note 21. Subsequent event**

On January 26, 2018, the Company entered into global strategic agreements for development, licensing, and revenue sharing with both BrainChip Holdings Limited (ASX: BRN), a leading developer of software and hardware accelerated solutions for advanced artificial intelligence and machine learning applications, and Xuvi, LLC, developers of an immersive data analytics and automation platform. The companies plan to jointly develop products for worldwide deployment in casino currency security, table game operations, and player behavior applications. The terms require payments to BrainChip Holdings Limited and Xuvi, LLC of approximately \$0.6 million and \$0.7 million, respectively, and are contingent upon completion of project phases.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### **Effectiveness of Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), has conducted an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (Exchange Act), as of December 31, 2017. Based upon this evaluation, our CEO and CFO have concluded that, as of December 31, 2017, the end of the period covered by this annual report on Form 10-K, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports under the Exchange Act is (a) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (b) accumulated and communicated to our management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

#### **Inherent Limitations on Effectiveness of Controls**

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the unintended or intended circumvention or overriding of the controls and procedures. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

#### **Changes in Internal Control over Financial Reporting**

Management has determined that there was no change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the quarter ended December 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Beginning January 1, 2018, we implemented internal controls to ensure we have adequately evaluated our contracts and properly assessed the impact of the new accounting standards related to revenue recognition to facilitate adoption on that date. We do not expect significant changes to our internal control over financial reporting due to the adoption of the new standard.

#### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America,
- (3) provide reasonable assurance that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (4) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Under the supervision of our CEO and CFO, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework (2013)*. Based on this assessment, management concluded that, as of December 31, 2017, our internal control over financial reporting is effective. Management reviewed this assessment with the Audit Committee of our Board of Directors.

**Item 9B. Other Information**

None.

**PART III**

This Part III incorporates certain information from our definitive proxy statement for our 2018 annual meeting of stockholders (Proxy Statement) to be filed with the SEC not later than 120 days after the end of our fiscal year covered by this annual report on Form 10-K.

**Item 10. Directors, Executive Officers, and Corporate Governance**

The information required by this Item is incorporated by reference to the Proxy Statement including the sections entitled “Nominees for Election of Directors,” “Board of Directors and Committees of the Board,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Executive Officers.”

**Item 11. Executive Compensation**

The information required by this Item is incorporated by reference to the Proxy Statement including the sections entitled “Executive Compensation,” “Director Compensation Table,” “Non-Employee Director Stock Options,” and “Non-Employee Director Cash Compensation.”

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated by reference to the Proxy Statement including the section entitled “Security Ownership of Management and Other Beneficial Owners” and “Equity Compensation Plan Information.”

**Item 13. Certain Relationships and Related Transactions and Director Independence**

The information required by this Item is incorporated by reference to the Proxy Statement including the sections entitled “Board of Directors and Committees of the Board.”

**Item 14. Principal Accounting Fees and Services**

The information required by this Item is incorporated by reference to the Proxy Statement including the sections entitled “Fees Paid to Independent Public Accounting Firm” and “Pre-Approval Policies and Procedures.”

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

#### (a)(1) *Financial Statements*

Included at Item 8. Financial Statements and Supplementary Data of this report:

Consolidated Balance Sheets at December 31, 2017 and 2016

Consolidated Statements of Income for the Years Ended December 31, 2017 and 2016

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017 and 2016

Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2017 and 2016

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016

Notes to Consolidated Financial Statements

#### (a)(2) and (c) *Financial Statement Schedules*

All required schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the consolidated financial statements or notes thereto included at Item 8. Financial Statements and Supplementary Data.

#### (a)(3) and (b) *Exhibits*

The exhibits listed in the Index of Exhibits are filed with, or incorporated by reference in, this annual report:

Index of Exhibits

No.	Exhibit Description	Incorporated by Reference To			
		Filed with this 10-K	Form	File No.	Date Filed
<a href="#">2.01*</a>	<a href="#">Agreement and Plan of Exchange and Stock Purchase Agreement, dated April 11, 2002, between Registrant and Etablissements Bourgogne et Grasset SA, as amended by the First Amendment thereto, dated May 13, 2002</a>		<a href="#">DEF 14A</a>	<a href="#">000-23588</a>	<a href="#">8/09/2002</a>
<a href="#">2.02*</a>	<a href="#">Stock Purchase Agreement, dated April 11, 2002, among Eric P. Endy, The Paul S. Endy, Jr. Living Trust, the other Endy family trusts listed on the signature pages thereto, and the stockholders of Etablissements Bourgogne et Grasset SA listed on the signature pages thereto</a>		<a href="#">DEF 14A</a>	<a href="#">000-23588</a>	<a href="#">8/09/2002</a>
<a href="#">2.03*</a>	<a href="#">Asset Purchase Agreement, dated July 1, 2014, among Registrant and GemGroup Inc., Gemaco Inc., GemAsia LLC, GemTech LLC, the shareholders of GemGroup Inc., and Danny R. Carpenter, as Agent</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">7/07/2014</a>
<a href="#">2.04*</a>	<a href="#">Asset Purchase Agreement, dated May 11, 2016, among Registrant, Entertainment Gaming Asia Inc. and Dolphin Products Limited</a>		<a href="#">10-Q</a>	<a href="#">000-23588</a>	<a href="#">8/11/2016</a>
<a href="#">3.01</a>	<a href="#">Registrant's Amended and Restated Articles of Incorporation</a>		<a href="#">10-K</a>	<a href="#">000-23588</a>	<a href="#">3/24/2016</a>
<a href="#">3.02</a>	<a href="#">Registrant's Amended and Restated Bylaws</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">12/28/2007</a>
<a href="#">4.01</a>	<a href="#">Specimen Certificate for Registrant's Common Stock</a>		<a href="#">10-K</a>	<a href="#">000-23588</a>	<a href="#">5/15/2007</a>
<a href="#">10.01+</a>	<a href="#">Registrant's 1994 Directors' Stock Option Plan, as adopted by the Board of Directors on December 26, 2017, subject to stockholder approval</a>	<a href="#">X</a>			
<a href="#">10.02+</a>	<a href="#">Employment Agreement, dated October 28, 2008, between Gregory Gronau and Registrant</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">10/28/2008</a>
<a href="#">10.03+</a>	<a href="#">Employment Agreement Amendment of 2017 dated March 22, 2017, between Gregory Gronau and Registrant</a>		<a href="#">10-K</a>	<a href="#">000-23588</a>	<a href="#">03/24/2017</a>
<a href="#">10.04+</a>	<a href="#">Stock Option Agreement, dated May 6, 2009, between Gregory S. Gronau and Registrant</a>		<a href="#">DEF 14A</a>	<a href="#">000-23588</a>	<a href="#">4/6/2009</a>
<a href="#">10.05</a>	<a href="#">Demand Line of Credit Agreement, dated June 26, 2014, between Gaming Partners International USA, Inc. and HSBC Bank USA, National Association</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">7/07/2014</a>
<a href="#">10.06</a>	<a href="#">Demand Note, dated June 26, 2014, by Gaming Partners International USA, Inc. payable to the order of HSBC Bank USA, National Association</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">7/07/2014</a>
<a href="#">10.07</a>	<a href="#">Security Agreement, dated June 26, 2014, between Gaming Partners International USA, Inc. and HSBC Bank USA, National Association</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">7/07/2014</a>
<a href="#">10.08</a>	<a href="#">Unlimited Guaranty, dated June 26, 2014 by Registrant for the benefit of HSBC Bank USA, National Association</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">7/07/2014</a>
<a href="#">10.09</a>	<a href="#">Credit Agreement, dated June 26, 2015, between Registrant and Nevada State Bank</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">7/02/2015</a>
<a href="#">10.10</a>	<a href="#">Pledge and Security Agreement and Irrevocable Proxy, dated June 26, 2015, among Registrant, Gaming Partners International USA, Inc. and Nevada State Bank</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">7/02/2015</a>
<a href="#">10.11</a>	<a href="#">Guaranty, dated June 26, 2015, by Gaming Partners International USA, Inc. and Gaming Partners International Asia Limited in favor of Nevada State Bank</a>		<a href="#">8-K</a>	<a href="#">000-23588</a>	<a href="#">7/02/2015</a>
<a href="#">10.12</a>	<a href="#">Lease Agreement dated March 5, 2018, between Copropiedad Arte Y Diseno, as lessor, and GPI Mexicana, S.A. de C.V., as lessee</a>	<a href="#">X</a>			
<a href="#">21.01</a>	<a href="#">List of Subsidiaries</a>		<a href="#">10-K</a>	<a href="#">000-23588</a>	<a href="#">3/29/2011</a>
<a href="#">23.01</a>	<a href="#">Consent of Moss Adams LLP</a>	<a href="#">X</a>			
<a href="#">31.01</a>	<a href="#">Certification of Registrant's Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002</a>	<a href="#">X</a>			
<a href="#">31.02</a>	<a href="#">Certification of Registrant's Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002</a>	<a href="#">X</a>			
<a href="#">32.01**</a>	<a href="#">Certification of Registrant's Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002</a>	<a href="#">X</a>			
<a href="#">99.01</a>	<a href="#">Government Gaming Regulation</a>	<a href="#">X</a>			
101.INS	XBRL Instance	<a href="#">X</a>			
101.SCH	XBRL Taxonomy Extension Schema	<a href="#">X</a>			
101.CAL	XBRL Taxonomy Extension Calculation	<a href="#">X</a>			
101.DEF	XBRL Taxonomy Extension Definition	<a href="#">X</a>			
101.LAB	XBRL Taxonomy Extension Labels	<a href="#">X</a>			
101.PRE	XBRL Taxonomy Extension Presentation	<a href="#">X</a>			

+ Management contract or compensatory plan or arrangement

\* The schedules and exhibits to this document have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. Registrant will furnish copies of any annexes or schedules to the Securities and Exchange Commission upon request.

\*\* This exhibit is intended to be furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise.

**Item 16. Form 10-K Summary**

Not required.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### GAMING PARTNERS INTERNATIONAL CORPORATION

Date: March 23, 2018

By: /s/ Gregory S. Gronau  
Gregory S. Gronau  
*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 23, 2018

By: /s/ Gregory S. Gronau  
Gregory S. Gronau  
*President, Chief Executive Officer, and Director  
(Principal Executive Officer)*

Date: March 23, 2018

By: /s/ Alain Thieffry  
Alain Thieffry  
*Chief Financial Officer, and Chairperson of the Board (Principal  
Financial Officer and Principal Accounting Officer)*

Date: March 23, 2018

By: /s/ Eric P. Endy  
Eric P. Endy  
*Director*

Date: March 23, 2018

By: /s/ Martin A. Berkowitz  
Martin A. Berkowitz  
*Director*

Date: March 23, 2018

By: /s/ Charles R. Henry  
Charles R. Henry  
*Director*

Date: March 23, 2018

By: /s/ Robert J. Kelly  
Robert J. Kelly  
*Director*

Date: March 23, 2018

By: /s/ Jean-Francois Lendais  
Jean-Francois Lendais  
*Director*

## GAMING PARTNERS INTERNATIONAL CORPORATION

## 1994 DIRECTORS' STOCK OPTION PLAN

Adopted by the Board of Directors on December 26, 2017  
Amendments Subject to Approval by the Stockholders on May 23, 2018

1. **Purpose.** The Gaming Partners International GPIC 1994 Directors' Stock Option Plan (the "**Plan**") is intended to promote the interests of Gaming Partners International Corporation ("**GPIC**") and its subsidiaries by offering members of the Board of Directors of GPIC who are not employed as regular salaried officers or employees of GPIC or any of its subsidiaries (hereinafter referred to as "**Non-Employee Directors**") the opportunity to participate in a stock option plan in order to encourage Non-Employee Directors to take a long term view of the affairs of GPIC; to attract and retain highly qualified Non-Employee Directors; and to aid in rewarding Non-Employee Directors for their services to GPIC.
2. **Administration.** The Plan shall be administered by the Compensation Committee (the "**Committee**"), selected by and serving at the pleasure of GPIC's Board of Directors (the "**Board**"), or by the Board. The Committee or the Board shall not have any discretion to determine or vary any matters which are fixed under the terms of the Plan including, without limitation, which individuals shall receive option awards, how many shares of GPIC's stock shall be subject to each such option award, what the exercise price of stock covered by an option shall be, what means of payment shall be acceptable, and stock appreciation rights; provided, however, that notwithstanding the foregoing or any other provision of the Plan, the Board shall have the authority to make the grants and other related determinations pursuant to Section 5(b) of the Plan.

The Committee or the Board shall have the authority to otherwise interpret the Plan and make all determinations necessary or advisable for its administration.

Any actions or decisions by the Committee under the Plan (other than grants of Non-Discretionary Options pursuant to Section 5(a) below) shall be subject to the approval of the Board.

3. **Eligibility.** Only Non-Employee Directors, who are not participants in GPIC's 1994 Long Term Incentive Plan, will be eligible to be granted awards.
4. **Stock Subject to the Plan.** The stock from which awards may be granted shall be GPIC's \$.01 par value Common Stock ("**Common Stock**"). When options are exercised, GPIC may either issue authorized but unissued shares of Common Stock or transfer issued shares of Common Stock held in its treasury. The total number of shares of Common Stock which may be granted as stock options shall not exceed 450,000. If an option expires, is terminated prior to its exercise, or surrendered, the Common Stock covered by such an option immediately prior to such expiration, termination, or surrender shall continue to be available for grant under the Plan.
5. **Grant and Amount of Options**
  - (a) **Non-Discretionary Options.** The date of grant of the initial option ("**Initial Option**") for a Non-Employee Director commencing his or her term shall be the date that he or she becomes a member of the Board of Directors ("**Commencement Date**"). The Initial Option grant shall be to purchase 6,000 shares of Common Stock (subject to vesting per Section 6(b) and to adjustment per Section 7).

Annual awards of options (“**Annual Options**” or individually an “**Annual Option**”) shall be granted beginning on the anniversary of the Commencement Date, and continuing each year thereafter. An Annual Option will be to purchase:

- (i) prior to the third anniversary of the Commencement date, 1,500 shares of Common Stock for each of the following Board committees on which the Non-Employee Director served for a period of at least six months during the twelve months prior to the date of grant: (A) Audit Committee; (B) Compliance Committee; and (C) Compensation Committee; and
- (ii) on the third anniversary of the Commencement Date, and each year thereafter, an additional 2,000 shares of Common Stock (all grant amounts subject to adjustment per Section 7).

The Initial Option and the Annual Options are collectively referred to herein as “**Non-Discretionary Options**.”

(b) **Discretionary Options.** Notwithstanding any provision of the Plan to the contrary, in addition to the Non-Discretionary Options, the Board shall have the authority to grant options from time to time in its sole and absolute discretion (“**Discretionary Options**”) to Non-Employee Directors pursuant to this Section. No Non-Employee Director shall have any right or claim to be granted a Discretionary Option. Subject to and consistent with the provisions of the Plan, the Board is authorized in its sole and absolute discretion to:

- (i) Select the Non-Employee Directors, if any, to whom Discretionary Options may be granted; and
- (ii) Determine the number of shares of Common Stock which are subject to a Discretionary Option.

The total number of shares of Common Stock which may be subject to Discretionary Options shall not exceed 100,000; provided, however, that

- (iii) if a Discretionary Option expires, is terminated prior to its exercise, or surrendered, the shares of Common Stock covered by such Discretionary Option immediately prior to such expiration, termination, or surrender, shall continue to be available for grant under this Section as a Discretionary Option; and
- (iv) any shares of Common Stock not subject to Discretionary Options shall be available for grants as Non-Discretionary Options. The Non-Discretionary Options and the Discretionary Options are collectively referred to herein as “options.”

6. **Terms and Conditions of Options.** Options shall be designated non-statutory options or not qualified as Incentive Stock Options under Section 422(a) of the Internal Revenue Code of 1986, as amended, and shall be evidenced by written instruments approved by the Committee or the Board. Such instruments shall conform to the following terms and conditions:

(a) **Option price.** The option price shall be the fair market value of the shares of Common Stock under option on the date such option is granted. The fair market value per share shall be the last reported sale price of the stock on such date on the Nasdaq National Market, or on such other stock exchange that the Common Stock may be listed from time to time. The option price shall be paid

- (i) in cash or
- (ii) in shares of Common Stock, including Common Stock underlying the option being exercised, having a fair market value equal to such option price or

(iii) in a combination of cash and shares of Common Stock, including Common Stock underlying the option being exercised.

The fair market value of shares of Common Stock delivered to GPIC pursuant to the immediately preceding sentence shall be determined based on the last reported sale price of the Common Stock on the Nasdaq National Market on the day of exercise or, if there was no such sale price on the day of exercise, on the day next preceding the day of exercise on which there was such a sale.

**(b) Vesting, exercise and term of options.** The Initial Option shall be exercisable to the extent of vesting. The Initial Option shall vest over a three-year period, with one-third of the Initial Option (2,000 shares) vesting upon each anniversary of the Commencement Date. Annual Options and Discretionary Options shall be fully vested upon grant, but shall only be exercisable six months and one day from the date of grant.

Except in special circumstances, each option shall expire upon the tenth anniversary of the date of its grant or such earlier date as provided in Section 6(c) below.

After becoming exercisable, each option shall remain exercisable until the expiration or termination of the option. After becoming exercisable an option may be exercised by the Non-Employee Director from time to time, in whole or part, up to the total number of shares with respect to which it is then exercisable. The Committee or the Board may provide that payment of the option exercise price may be made following delivery of the certificate for the exercised shares.

Upon the exercise of an option, the purchase price will be payable in full in cash or Common Stock as provided in Section 6(a). Any shares of Common Stock so assigned and delivered to GPIC in payment or partial payment of the purchase price will be valued at fair market value on the exercise date. Upon the exercise of a non-qualified stock option, GPIC shall withhold from the shares of Common Stock to be issued to the eligible Non-Employee Director the number of shares necessary to satisfy GPIC's obligation to withhold Federal taxes, such determination to be based on the shares' fair market value on the date of exercise.

**(c) Termination of Directorship.** If a Non-Employee Director ceases for any reason including death or resignation to be a director: all options granted to such Non-Employee Director and vested on the date of termination of Directorship shall expire on the earliest of (i) the tenth anniversary after the date of grant, (ii) nine months after the day such Non-Employee Director ceases to be a director for any reason other than death, or (iii) two years after the day such Non-Employee Director ceases to be a director due to his death; and all options granted to such Non-Employee Director which are unvested shall expire.

**(d) Exercise upon death of Non-Employee Director.** If a Non-Employee Director dies, the option may be exercised, to the extent provided in Section 6(c), by the Non-Employee Director's estate, personal representative or beneficiary who acquires the option by will or by the laws of descent and distribution. The Committee or the Board may approve all cash payments to the estate of a Non-Employee Director if circumstances warrant such a decision.

**(e) Assignability.** No option shall be assignable or transferable by the Non-Employee Director except by will or by the laws of descent and distribution and during the lifetime of the Non-Employee Director the option shall be exercisable only by such Non-Employee Director.

**7. Capital Adjustments.** The number and price of shares of Common Stock covered by each award of options and the total number of shares that may be granted under the Plan shall be proportionally adjusted to reflect, subject to any required action by the stockholders, any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares or other similar corporate change.

8. **Change of Control.** Notwithstanding the provisions of Section 7, in the event of a change of control, all vesting on all unexercised stock options will accelerate to the change of control date. For purposes of this Plan, a “Change of Control” of GPIC shall be deemed to have occurred when:
- (a) any “person” (as the term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934), not including Paul S. Endy, or his heirs or assigns, or the Paul S. Endy, Jr. Living Trust, or its beneficiaries, becomes the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of securities of GPIC representing 25.0% or more of the combined voting power of GPIC’s outstanding securities ordinarily having the right to vote at the election of directors; or
  - (b) individuals who constitute the Board of Directors on the date hereof (the “Incumbent Board”) cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by at least a majority of the directors comprising the Incumbent Board, or whose nomination for election was approved by a majority of the Board of Directors of GPIC serving under an Incumbent Board, shall be, for purposes of this clause (b), considered as if he or she were a member of the Incumbent Board; or
  - (c) merger, consolidation or sale of all or substantially all the assets of GPIC occurs, unless such merger or consolidation shall have been affirmatively recommended to GPIC’s stockholders by a majority of the Incumbent Board; or
  - (d) a proxy statement soliciting proxies from stockholders of GPIC by someone other than the current management of GPIC seeking stockholder approval of a plan or reorganization, merger or consolidation of GPIC with one or more GPICs as a result of which the outstanding shares of GPIC’s securities are actually exchanged for or converted into cash or property or securities not issued by GPIC unless the reorganization, merger or consolidation shall have been affirmatively recommended to GPIC’s stockholders by a majority of the Incumbent Board.
9. **Approvals.** The issuance of shares pursuant to this Plan is expressly conditioned upon obtaining all necessary approvals from all regulatory agencies from which approval is required, including gaming regulatory agencies, and upon obtaining stockholder ratification of the Plan.
10. **Effective Date of Plan.** The effective date of the Plan is January 31, 1994.
11. **Term: Amendment of Plan.** This Plan shall expire on January 31, 2022 (except to options outstanding on that date). The Board may terminate the Plan at any time. The Board may amend the Plan at any time, provided however, the provisions of Section 5 pertaining to the amount of options to be granted and the timing of such option grants and the provisions of Section 6(a) pertaining to the option price of the Common Stock under option shall not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code or the rules thereunder. Further provided however, that, without the approval of the holders of a majority of the outstanding shares of Common Stock; the total number of shares that may be sold, issued or transferred under the Plan may not be increased (except by adjustment pursuant to Section 7); the provisions of Section 3 regarding eligibility may not be modified; the purchase price at which shares may be offered pursuant to options may not be reduced (except by adjustment pursuant to Section 7); and the expiration date of the Plan may not be extended and no change may be made which would cause the Plan not to comply with Rule 16b-3 of the Securities Exchange Act of 1934, as amended from time to time. No action of the Board or stockholders, however, may, without the consent of a Non-Employee Director, alter or impair such Non-Employee Director’s rights, including stock appreciation rights, under any option previously granted.
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12. **Withholding Taxes.** GPIC shall have the right to deduct withholding taxes from any payments made pursuant to the Plan or to make such other provisions as it deems necessary or appropriate to satisfy its obligations to withhold federal, state or local income or other taxes incurred due to payments or the issuance of shares of Common Stock under the Plan. Whenever under the Plan, shares of Common Stock are to be delivered upon exercise of an option, the Committee or the Board shall be entitled to require as a condition of delivery that the grantee remit an amount sufficient to satisfy all federal, state and other government withholding tax requirements related thereto.
13. **Plan Not a Trust.** Nothing contained in the Plan and no action taken pursuant to the Plan shall create or be construed to create a trust of any kind, or a fiduciary relationship, between GPIC and any Non-Employee Director, the executor, administrator or other personal representative, or designated beneficiary of such Non-Employee Director, or any other persons. If and to the extent that any Non-Employee Director or such Non-Employee Director's executor, administrator or other personal representative, as the case may be, acquires a right to receive any payment from GPIC pursuant to the Plan, such right shall be no greater than the right of an unsecured general creditor of GPIC.
14. **Notices.** Each Non-Employee Director shall be responsible for furnishing the Committee with the current and proper address for the mailing of notices and delivery of agreements, Common Stock and cash pursuant to the Plan. Any notices required or permitted to be given shall be deemed given if directed to the person to whom addressed at such address and mailed by regular United States mail, first-class and prepaid. If any item mailed to such address is returned as undeliverable to the addressee, mailing will be suspended until the Non-Employee Director furnishes the proper address. This provision shall not be construed as requiring the mailing of any notice or notification if such notice is not required under the terms of the Plan or any applicable law.
15. **Severability of Provisions.** If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and this Plan shall be construed and enforced as if such provisions had not been included.
16. **Payment to Minors, etc.** Any benefit payable to or for the benefit of a minor, an incompetent person or other person incapable of receipting therefor shall be deemed paid when paid to such person's guardian or to the party providing or reasonably appearing to provide for the care of such person, and such payment shall fully discharge the Committee, the Board, GPIC and other parties with respect thereto.
17. **Headings and Captions.** The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.
18. **Controlling Law.** This Plan shall be construed and enforced according to the laws of the State of Nevada to the extent not preempted by federal law, which shall otherwise control.
19. **Stock Appreciation Rights**
- (a) **Grants.** All options granted under Sections 5(a) and (b) have concurrent grants of stock appreciation rights. A stock appreciation right shall cover the same number of shares covered by such option and shall be subject to the same terms and conditions as such option except for such additional limitations as are contemplated by this Section.
  - (b) **Terms of Grant.** Each stock appreciation right shall entitle a Non-Employee Director to surrender to GPIC a vested option and to receive from GPIC in exchange an amount equal to: the difference between (A) the fair market value of one share of Common Stock, based upon the closing price on the trading day immediately prior to the day a surrender request is made, and (B) the option price per share, *multiplied* by the number of shares of Common Stock relating to the option which is surrendered. Subject to the open trading window requirement in Section 19(c), a Non-Employee Director may surrender an option, from time to time, up to the total number of shares with respect to which it is then exercisable. Payment shall be made in cash.
  - (c) **Exercise.** Stock appreciation rights may be exercised by providing written notice (email is acceptable) of exercise to GPIC's President, Chair of the Compensation Committee, finance department and legal department. Such notice shall state the number of shares being exercised, the grant number, the option price, and the closing price of a share of Common Stock on the trading day immediately prior to the date of notice. All notices of exercise must be received within an open trading window.

## LEASE AGREEMENT

THIS LEASE AGREEMENT ("THE AGREEMENT") IS ENTERED BY AND BETWEEN "COPROPIEDAD ARTE Y DISEÑO", (THE "LESSOR") REPRESENTED BY MR. FRANCISCO JAVIER MORENO SANCHEZ AND "GPI MEXICANA, S.A. DE C.V." (THE "LESSEE") REPRESENTED BY MR. GREGORY SCOTT GRONAU, PURSUANT TO THE FOLLOWING RECITALS AND CLAUSES:

## RECITALS

**I The LESSOR represents:**

- a) That COPROPIEDAD ARTE Y DISEÑO is the name for commercial purposes used to identify the co-ownership over the land and Buildings subject matter of this AGREEMENT. Such co-ownership is formed by Mr. Francisco Javier Moreno Sanchez jointly with his wife Ms. Maria del Carmen Collado Bosch of Moreno; Ms. Gloria Maria Moreno Sanchez jointly with her husband Mr. Galo Ruiz Moreno and Mr. Jesús Moreno Sánchez
- b) That LESSOR holds title over the Industrial facilities (The "BUILDINGS") which is the matter of this AGREEMENT and identified as Building 1 located at Av. De fa Transformación y Calle Samuel Ocaña Garcia Block # 2, Lot # 9, and Building 2 located Block # 2, in the Industrial Park in San Luis Rio Colorado Sonora., Mexico.
- c) That the co-owners of COPROPIEDAD ARTE Y DISEÑO are duly registered before the Federal Registry of Taxpayers (RFC) MOSF 560128 7P7.
- d) That Mr. Francisco Javier Moreno Sanchez has sufficient authority to execute this AGREEMENT on behalf of LESSOR as evidenced in the Public Deed and whose authority has not been revoked or limited in any way.
- e) That LESSOR has the intention to lease to LESSEE the BUILDINGS as identified in the recital I b), pursuant to the terms and conditions contained in this AGREEMENT.

**II The LESSEE represents:**

- a) That it is a Company duly organized and existing pursuant to the laws of Mexico as evidenced in Public Deed # 1,189 dated October 23, 1984, issued by Mr. Rafael Godoy Jaramillo Notary Public # 88, of San Luis Rio Colorado, Sonora, duly registered under number 1052 Volume XVII, Section 5, of the Public Registry of Commerce of San Luis Rio Colorado Sonora.
- b) That its corporate purpose allows the execution of this AGREEMENT.
- c) That it is duly registered before the Federal Registry of Taxpayers (RFC) with number GME841026H38.
- d) That Mr. Gregory Scott Gronau has sufficient authority to execute this AGREEMENT on behalf of LESSEE as evidenced in Public deed number # 26183, dated August 27, 2009 passed before the faith of Notary Public # 54, Lic Silvia Cecilia Leyva Ramirez which authority has not been revoked or limited in any way.
- e) That LESSEE has the intention to lease from LESSOR the BUILDINGS, as identified in the recital I b) and in the Exhibits "A" and "B" pursuant to the terms and conditions contained in this agreement.

THEREFORE, *in* consideration of their mutual covenants and agreements, the parties agree to enter into this AGREEMENT, according to the terms and conditions, contained in the following:

## ARTICLES

**ARTICLE 1. Definitions**

- 1.1. LESSOR: "COPROPIEDAD ARTE Y DISEÑO" represented by Mr. Francisco Javier Moreno Sanchez.
- 1.2. LESSEE: "GPI MEXICANA, S.A. de C.V.", represented by its Sole Administrator Mr. Gregory Scott Gronau.

1.3. The BULDING The Industrial facility owned by LESSOR located Building # 1 at Av. De la Transformación and Calle Samuel Ocaña Garcia Block # 2, Lot # 9, and Building # 2 is located at Block # 2, lot 10 in the Industrial Park in San Luis Rio Colorado, Sonora, Mexico, which has been identified in the blue prints attached to this Agreement as Exhibit "A" and described in the inventory attached to this Agreement as Exhibit "B".

1.4 RENT: The amount that shall be paid by LESSEE to LESSOR in monthly installments during the term of this AGREEMENT for the use and occupation of the BUILDINGS. The RENT was agreed by the parties in the fixed amount of USD \$0.35 (thirty- five cents of dollar legal currency of the United State of America) per square feet effectively used by LESSEE during the term of the AGREEMENT. The RENT currently totals the amount of USD \$28,140.00 (twenty-eight thousand one hundred forty dollars 00/100 legal currency of the United States of America) based on the square feet of BUILDINGS that will be initially agreed by LESSEE.

1.5 TERM.- The period in which the Lease AGREEMENT will be in force. The term is **5 (five)** years beginning as of January 1, 2018 and ending on December 31, 2023. At the end of the TERM the LESEE will have the options set forth in Article 4.1 below.

## **ARTICLE 2. Purpose**

2.1 LESSOR agrees to lease to LESSEE who agrees to lease from LESSOR the BUILDINGS as of the beginning of the TERM of this AGREEMENT.

2.2 The date of beginning of the TERM will be the date for commencement of the obligations under the AGREEMENT.

## **ARTICLE 3. Rent**

3.1 LESSEE shall pay the RENT to LESSOR monthly and in advance during the first 11 (ten) natural days of each month at LESSEE's domicile located at Avenida de La Transformación y Dr.Samuel Ocaña, San Luis Rio Colorado Sonora Mexico.

3.2 The RENT has been agreed by the Parties in the fixed amount of USD \$0.35 (thirty-five cents of dollar legal currency of the United States of America) per square feet of the BULDING effectively used by LESSEE for the TERM of the AGREEMENT. The RENT currently totals the amount of USD \$28,140.00 (twenty-eight thousands one hundred forty dollars 00/100 legal currency of the United States of America) based on the 80,400 square feet of BUILDINGS that will be initially used by LESSEE. Such RENT shall be paid at LESSOR's choice in US Dollars (legal currency of the United States of America) or in Mexican Pesos at the exchange rate to comply with obligations published by Bank of Mexico on the date such RENT is paid plus the Value Added Tax (IVA).

3.3 LESSOR shall deliver the corresponding receipt to evidence payment of the RENT within the following 5 (five) days of receiving such payment. Such receipt shall fulfill the requirements of the applicable tax laws and regulations in force on the date when LESSEE makes such payment.

3.4 If LESSOR occupies the BUILDINGS for a partial month the RENT shall be prorated.

## **ARTICLE 4. Term**

4.1 The TERM of this AGREEMENT is **5 (five) years**. This AGREEMENT will begin its TERM on January 1, 2018; and shall end precisely on December 31, 2023. At the end of the TERM LESSEE shall have to its own discretion the following Options: (I) To renew the AGREEMENT for I (one) year on the same terms and conditions having the right for terminating the AGREEMENT at any time giving notice to LESSOR with 6 months in advance.

4.2 LESSEE may exercise either Option set forth in 4.1 above by giving notice in writing to the LESSOR of its decision at least 30 (thirty) natural days in advance to the expiration of the TERM.

4.3 If LESSEE continues occupying the BUILDINGS at the end of the TERM of the AGREEMENT, as determined in Article 4.1 without having exercised any of the Options referred to in the above paragraph, LESSEE will pay to LESSOR the corresponding amount of RENT during the TERM it continues in possession of the leased BUILDINGS from the last day of the TERM of the AGREEMENT and until it vacates the BUILDINGS, the payment referred to herein will not be consider an extension of the AGREEMENT.

## **ARTICLE 5. Building Use**

5.1 LESSEE will use the BUILDINGS to perform its main activities, which include without limitation, the manufacture of Chips, Plaques, Dice, Cards, Gaming Furniture and Layouts, as well as any related activity.

5.2 LESSEE agrees to use the BUILDINGS in accordance with this AGREEMENT and with any other law or regulation applicable to the use of the BUILDINGS by LESSEE.

5.3 LESSEE can introduce and store in the BUILDINGS those materials that are required or useful for the performance of its manufacturing activities, even though they are classified as hazardous materials or residues, flammable materials or explosives. LESSEE shall store and dispose them in accordance with industry standard procedures and local laws.

5.4 LESSEE may only store trash temporarily within the BUILDINGS and shall arrange for regular pickup of trash at its expense. LESSEE shall not burn any trash of any kind in or about the BUILDINGS.

## **ARTICLE 6. Insurance**

6.1 LESSEE shall obtain and maintain in force during the term of the AGREEMENT at its own expense a comprehensive insurance policy (ies) from a recognized insurance company authorized to issue insurance in San Luis Rio Colorado Sonora.

6.2 Such policy (ies) shall cover property damage of LESSOR and LESSEE. Civil liability (for injury to persons and property, and for death of any person occurring in the leased BUILDINGS); for acts of God and for damages caused to the BUILDINGS or third persons or Property for the storage of hazardous materials.

6.2.1 The Policy to cover property damage and civil liability shall insure LESSEE and LESSOR and such other agents and employees of LESSOR, LESSOR's subsidiaries or affiliates or LESSOR'S assignees or any nominee of LESSOR holding any interest in the Leased property, against liability for injury to persons and property and for death of any person occurring in or about the BUILDINGS. The liability of such insurance shall be in the amount of no less than US\$400,000.00 (Four hundred thousand dollars legal currency of the United States of America) or its equivalent in Mexican Currency at the exchange rate published by Bank of Mexico to comply with obligations effective in the contracting date.

6.2.2 The policy of insurance for fire, lighting, explosion, falling aircraft, smoke, windstorm, earthquake, hail, vehicle damage, volcanic eruption, strikes, civil commotion, vandalism, riots, malicious mischief, steam boiler or pressure object explosion if applicable and flood insurance of the BUILDINGS shall be for a liability equivalent of USD \$2M (Two million dollars legal currency of the United States of America) or its equivalent in Mexican Currency at the exchange rate published by Bank of Mexico to comply with obligations effective in the contracting date.

6.3 LESSEE shall obtain and maintain in force during the term of the AGREEMENT the insurance policy (ies) to cover the issues mentioned in 6.2 above. Such Policy (ies) shall mention that it/they is/are not subject to cancellation or change until the termination of the Lease AGREEMENT. The Policies together with copies or receipts for payment of the premiums thereof, shall be delivered to LESSOR no more than (30) days following the execution of this AGREEMENT. All documents verifying the renewal of such policy (ies) shall be delivered to LESSOR at least (30) days prior to the expiration of the term of such coverage. Prior to the commencement date of the TERM each party shall procure and maintain the insurance covering its own liability and Property as each deems appropriate.

6.4 Except for the Insurance upon LESSEE's property, LESSOR and its beneficiaries shall be appointed irrevocably as beneficiaries for all proceeds as their interest may appear.

## **ARTICLE 7. Installations & Tenant Improvements**

7.1 LESSEE may at its expense, install on the leased BUILDINGS, such trade fixtures, equipment and furniture it may deem necessary, provided that such items are installed and are removed without causing damage to the structural integrity of the BUILDINGS. Said trade fixtures; equipment and furniture shall remain LESSEE'S property.

7.2 LESSEE may perform improvements in the BUILDINGS considered, useful, necessary, or decorative, without prior written authorization of LESSOR, provided that such improvements are installed and are removable without causing damage to the structure of the BUILDINGS.

7.3 LESSEE shall repair any damage caused by the installation or removal of trade fixtures, equipment, furniture and improvements.

7.4 LESSEE shall require LESSOR'S written consent, which LESSOR shall not unreasonably withhold, to make any structural modification or alteration costing more than USD \$100,000 (one hundred thousand dollars legal currency of the United States of America) to the BUILDINGS. LESSOR may authorize changes necessary for the appropriate use of the BUILDINGS, which will be made at LESSEE'S expense. LESSOR may at its election, directly or through a third party, perform, or authorize LESSEE to perform, the construction including of any improvements that parties mutually agree are necessary for the appropriate use of the Premises, by a written authorization of the blue prints detailing the improvements to be made. Concerning improvements LESSEE will have the rights conferred by Article 2717 and any other relevant articles of the Civil Code of the State of Sonora.

#### **ARTICLE 8. Maintenance and Repair**

8.1 After receipt of written notice from LESSEE, LESSOR at its own expense shall promptly and with minimum interference to the operation of LESSEE proceed to repair defects which are necessary for the adequate functioning of the BUILDINGS e.g. structural defects in the roof or exterior wall pursuant to Articles 2684 and 2685 of the Civil Code of the State of Sonora.

8.2 The LESSEE shall be responsible for all minor repairs to the BUILDINGS.

#### **ARTICLE 9. Subleasing and Assignment**

9.1 LESSEE will under no circumstances sublease all or part of the BUILDINGS; nor assign it to third parties, according to the terms of Artic 2751 of the Civil Code of the State of Sonora, unless prior written authorization by LESSOR is given, which authorization will not be unreasonably withheld; provided, however, that LESSEE may assign or sublease all or part of the BUILDINGS without LESSOR's consent if LESSEE remains liable to LESSOR under this AGREEMENT.

9.2 Notwithstanding the above LESSEE may sublease or assign all or a part of the BUILDINGS to LESSEE's parent, subsidiary or affiliates without having LESSOR's consent.

#### **ARTICLE 10.- Services**

10.1 LESSEE will have the right to contract the utility services, which it considers necessary for the adequate operation of its facilities, such as telephone, electricity, water, gas, which will be under its account.

10. At AGREEMENT's termination and before vacating the BUILDINGS, LESSEE shall provide evidence to the LESSOR that such services have been duly paid.

#### **ARTICLE 11. Right of First Refusal, Right of Preference and Extent**

11.1 LESSEE has the right of first refusal referred to in Article 2717 of the Civil Code of the State of Sonora, in the event LESSOR wishes to conveyor transfer any right it has over the BUILDINGS.

11.2 LESSEE has the right of preference referred to in Article 2717 of the Civil Code of the State of Sonora, if the LESSEE is current with payment of the rent.

11.3 LESSEE has the right to extend the AGREEMENT referred to in Article 2763 of the Civil Code of the State of Sonora.

#### **ARTICLE 12. Damage or Destruction**

12.1 In the event that BUILDINGS are damaged by fire or other perils covered by insurance, LESSOR agrees to forthwith repair same except as mentioned below and this AGREEMENT shall remain in fun force and effect except that LESSEE shall be entitled to a proportionate reduction in the RENT from the date of damage and while such repairs are being made. Such proportionate reduction shall be based upon the extent to which the damage and making of such repairs shall reasonably interfere with the business carried out by the LESSEE in the BUILDINGS.

12.2 In the event the BUILDINGS are damaged during the term of the AGREEMENT because of any other cause than the perils covered by fire and extended coverage insurance, then LESSOR shall forthwith repair the same provided the extent of the destruction is less than 25% of the full replacement cost of the BUILDINGS. In the event the destruction of the BUILDINGS is to an extent 25% or more of the full replacement cost of the BUILDINGS then LESSOR shall have the option to:

12.2.1 To repair or restore such damage, this AGREEMENT continuing in full force and effect, but the RENT proportionately reduced as provided above or

12.2.2 To give notice to LESSEE at any time within (60) days after the damage, terminating this AGREEMENT as of the date specified in such notice, which termination date shall be no more than thirty (30) days after the giving of such notice. In this case the proportional RENT shall be paid up to date of the termination. In the event of giving such notice, this AGREEMENT shall expire and all interest of LESSEE in the BUILDINGS shall terminate on the date so specified in such notice.

#### **ARTICLE 13. Waiver and Indemnification**

13.1 LESSOR is not responsible for thefts, accidents, fire, earthquake or acts of God, that may cause damage to the LESSEE, its assets, employees, guests, the BUILDINGS, or third parties.

13.2 LESSEE will indemnify and hold harmless LESSOR for any damages caused to third parties on the BUILDINGS, and will defend at LESSEE'S expense, any claim, lawsuit, or proceeding brought against LESSOR, because of its relationship as LESSOR & LESSEE, unless those damages are caused by LESSOR.

#### **ARTICLE 14. Taxes.**

14.1 The parties are responsible to pay their respective state, federal or municipal taxes, related with this AGREEMENT that according to the applicable legislation correspond to them. To that effect LESSEE binds to pay each and everyone of the fiscal obligations of the Federation, State or Municipality inherent to the industrial business or destiny given to the BUILDINGS, releasing the LESSOR from all obligation related with the foregoing. The LESSOR on its part binds to cover all the federal, state or municipal taxes related with this AGREEMENT to which it is bound in its capacity of owner of the BUILDINGS and LESSOR, releasing LESSEE from any obligation related with the foregoing.

#### **ARTICLE 15. Causes of Termination**

15.1 The LESSOR can terminate this AGREEMENT, regardless of the causes established by the law, due to the causes established in section 15.2 below; provided however in the event of default, the LESSOR shall notify LESSEE in writing that it is not complying with an obligation of LESSEE under this AGREEMENT and LESSEE will have a term of 30 (thirty) calendar days as of the day in which it received such notice to remedy such default.

15.2 Causes in which the LESSOR may terminate this AGREEMENT:

15.2.1 Vacation or abandonment of the BUILDINGS.

15.2.2 Consecutive non-payment of two monthly RENTS.

15.2.3 Making modifications or tenant improvements in violation of this AGREEMENT.

15.2.4 Subletting or assigning the BUILDINGS in violation of this AGREEMENT.

15.3 Causes for which the LESSEE may terminate this AGREEMENT:

15.3.1 In case that LESSOR does not allow LESSEE the use and enjoyment of the BUILDINGS.

15.3.2 Due to the LESSOR's failure to make repairs.

15.3.2 For LESSOR's default of any of its obligations under this AGREEMENT.

15.4 If the defaulting party does not cure its default during the period to Cure, the affected party may immediately terminate this Agreement or claim specific performance:

15.5 This AGREEMENT may be terminated, at any time before the end of the TERM, by written consent of both parties.

## ARTICLE 16. Dispute Resolution

16.1 For any conflict arising under this AGREEMENT, or its interpretation, the parties will give written the same notice to the other party, thereafter, the parties will negotiate a resolution to the dispute in good faith. If after 15 days from the date of receipt of such notice, Parties are unable to resolve the dispute, it will be submitted to arbitration as established in this Article.

16.2 Any controversy or claim arising out of or relating to this AGREEMENT not resolved according to Clause 16.1 herein, shall be submitted to the American Arbitration Association (AAA) to be resolved by arbitration in accordance with the rules of the AAA.

16.2.1 There shall be one arbitrator appointed by agreement of the parties. If the parties fail to agree on an arbitrator, the arbitrator shall be appointed according to the procedures of the AAA.

16.2.2 The place of arbitration shall be Las Vegas Nevada, United States of America.

16.2.3 The language of the arbitration shall be English.

16.2.4 The arbitration panel or the single arbitrator will apply the laws of the State of Sonora, Mexico.

16.2.5 The prevailing party will be entitled to attorney's fees and arbitration costs from the losing party.

## ARTICLE 17. Miscellaneous

17.1 Entire Agreement. This AGREEMENT constitutes the entire agreement with respect to the matters described herein, and supersedes any other oral or written agreement between the parties.

17.2 Amendments. The terms of this AGREEMENT may only be amended or modified by written agreement signed by the parties or its authorized representatives.

17.3 Consent. Whenever the prior consent of a party, written or otherwise is required as a condition for any act by the other party under this AGREEMENT, such party agrees not to arbitrarily withhold such consent. . .

17.4 Quiet Enjoyment. LESSOR agrees that LESSEE upon paying the RENT and all other charges provided for herein and upon complying with all the terms and provisions of the AGREEMENT shall lawfully and quietly occupy and enjoy the BUILDINGS during the TERM.

17.5 Access to the BUILDINGS. LESSOR or its authorized representative has the right to inspect the leased BUILDINGS at any time during the normal business hours of LESSEE with 72 hours prior written notice and in emergencies always. For a period commencing 90 days prior to the termination of this AGREEMENT, LESSOR shall have prior appointment access to the BUILDINGS for exhibiting it to prospect clients and may post announcements for sale or lease on the BUILDINGS.

17.6 Controlling Language. This Agreement has been prepared in English. Any party can request its legal translation into Spanish at its own expense.

17.7 Applicable Law. It is agreed by the parties hereto that this Agreement shall be interpreted in accordance with the laws of Mexico specially to the regulations of the Sonora State, Civil Code.

17.8 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable because it is invalid or in conflict with any law of any relevant jurisdiction, the validity of the remaining provision shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Agreement did not contain the particular provision held to be unenforceable.

17.9 Headings. It is agreed by the parties hereto that the headings of the clauses herein have been included for convenience only and do not form any part of the Agreement

17.10 Notices. Any notice, communication, waiver, or consent, required or permitted to be given under this Agreement, or the change of address which is being notified, shall be in Writing and delivered by prepaid first-class mail, facsimile or by personal delivery to the address of the relevant Party, and any notice so delivered shall be deemed to have been received. Notice of any change of address shall be made to the other party as soon as such new address becomes effective. All such notices and communications shall be effective: a) when sent by an overnight courier service of recognized standing, on the second business day following the deposit with such service b) when delivered by hand, upon delivery; c) when faxed, upon confirmation of receipt; or d) by any other means, upon receipt.

LESSOR: Attn.: Francisco Javier Moreno Sanchez  
Copropiedad Arte y Diseño.  
San Luis Rio Colorado, Sonora México

LESSEE: Attn: Gregory Scott Gronau  
GPI Mexicana, S.A. de C.Y.  
Av. de la Transformaci6n y Calle Samuel Ocaña  
Parque Industrial, CP 83455  
San Luis Rio Colorado, Sonora México

With Copy to: Chief Legal Officer  
Gaming Partners International Corporation  
3945 West Cheyenne Avenue,  
North Las Vegas Nevada, 89032 United States of America

LESSOR

LESSEE

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GPI Mexicana S.A. de C.V.

Represented by: Francisco Javier Moreno Sánchez

Represented by Gregory Scott Gronau

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Witness

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Witness

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**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in Registration Statement Nos. 33-84726, 333-114019, 333-152186, and 333-159217 of Gaming Partners International Corporation and Subsidiaries on Form S-8, of our report dated March 23, 2018, appearing in this Annual Report on Form 10-K of Gaming Partners International Corporation and Subsidiaries for the year ended December 31, 2017.

/s/ Moss Adams LLP

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San Diego, CA  
March 23, 2018

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**  
Section 302 Certification

I, Gregory S. Gronau, certify that:

1. I have reviewed this Annual Report on Form 10-K of Gaming Partners International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2018

By: /s/ Gregory S. Gronau  
Gregory S. Gronau  
*President and Chief Executive Officer*

**CERTIFICATION OF PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER**  
Section 302 Certification

I, Alain Thieffry, certify that:

1. I have reviewed this Annual Report on Form 10-K of Gaming Partners International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2018

By: /s/ Alain Thieffry  
Alain Thieffry  
*Chief Financial Officer, and Chairperson of the Board*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Gaming Partners International Corporation (the "Company") for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Gregory S. Gronau, as Chief Executive Officer of the Company and Alain Thieffry, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Gaming Partners International Corporation

Date: March 23, 2018

By: /s/ Gregory S. Gronau  
Gregory S. Gronau  
*President and Chief Executive Officer*  
*Principal Executive Officer*

Date: March 23, 2018

By: /s/ Alain Thieffry  
Alain Thieffry  
*Chief Financial Officer, and Chairperson of the Board*  
*(Principal Financial Officer and Principal Accounting Officer)*

## Government Gaming Regulations

### *Overview*

Gaming Partners International Corporation (“GPIC,” “we,” “us,” or “our”) are subject to a wide range of complex gaming laws and regulations in over 175 jurisdictions, both foreign and domestic, in which we are licensed or have applications pending. Jurisdictions require us to be licensed, our key personnel to be found suitable, qualified or licensed, and our products to be reviewed and approved before placement. Additionally, gaming laws and regulations of most jurisdictions provide that beneficial owners of 5% or more of our common stock are subject to reporting procedures and may be subject to licensure that includes suitability investigations and submission of personal and financial information as required, unless the owner is eligible for and obtains an exemption or waiver. Under certain circumstances, an “Institutional Investor,” as such term is defined by certain gaming jurisdictions' statutes or regulations, who acquires more than 5%, may apply for a waiver of the suitability requirement. Generally, gaming jurisdictions may permit an Institutional Investor to hold up to 25% upon a showing that it meets the jurisdiction's definition of an “Institutional Investor” and certification as to its passive investment intent.

Furthermore, most jurisdictions have ongoing reporting requirements for certain transactions and are concerned with our accounting practices, internal controls, business relationships and the fair operation of our products. Gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, approvals and processes related to findings of suitability, qualifications or licenses, our products, key personnel and certain shareholders can be lengthy and expensive.

### *General regulatory licensing and approvals*

We intend to maintain our existing licenses and to seek the necessary licenses, approvals, qualifications and findings of suitability for us, our products and our management personnel in new jurisdictions where we anticipate sales or leasing opportunities. However, there can be no assurance that new licenses, approvals, qualifications or findings of suitability will be obtained or that our existing licenses will be renewed or will not be revoked, suspended or conditioned. If a license, approval, qualification or finding of suitability is required by a regulatory authority and we fail to seek or do not receive the necessary license, qualification or finding of suitability, then we may be prohibited from distributing our products for use in the respective jurisdiction or may be required to provide our products through other licensed entities at a reduced profit to us. There can also be no assurance that we will be able to obtain the necessary approvals for our products as they are developed. In addition, changes in legislation or in judicial or regulatory interpretations could occur which could adversely affect us.

We are currently subject to the licensing and/or regulatory control of gaming authorities in over 175 jurisdictions. Due to variations in jurisdictional regulatory transaction reporting, as well as manufacturer, distributor and product licensing requirements, only the specifics of Nevada and New Jersey gaming law requirements are provided below as being representative of gaming regulation to which we are subject in other jurisdictions.

### *Nevada Gaming Regulation*

The manufacture and distribution of gaming equipment in Nevada are subject to extensive state and local regulation. Our operations are subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada Gaming Control Board and various local regulatory agencies, or the Nevada gaming authorities, due to our prior manufacture of roulette wheels, which are considered gaming devices.

In the November 18, 2004 Order from the Nevada Gaming Commission to GPIC and Gaming Partners International USA, Inc. (GPIC USA), GPIC was exempted from registration as a publicly-traded corporation and GPI USA and Gaming Partners International SAS (GPI SAS) were each licensed as manufacturers and distributors strictly limited to the manufacture, distribution and service of roulette wheels in Nevada, and subject to administrative approval prior to the distribution of any roulette wheel and further subject to specified conditions set forth in the Order, including but not limited to the filing of periodic reports with and notifications to Nevada gaming authorities. The result of this Order is to grant GPI USA and GPI SAS transactional waivers so that they may manufacture roulette wheels for sale to Nevada casino licensees.

Effective August 30, 2006, the approvals were expanded by the Nevada gaming authorities to permit GPI USA to sell GPI SAS roulette wheels outside of Nevada. The waivers granted were specifically found by the Nevada Gaming Commission to be consistent with the policies set forth for in the Nevada gaming laws. These waivers may, however, be withdrawn by the Nevada Gaming Control Board for any cause deemed reasonable. Upon such withdrawal, GPIC would be subject to full registration and licensing. GPI SAS surrendered its license in Nevada as GPI SAS roulette wheels are no longer being sold in Nevada nor is there any reason to transport them through Nevada.

On November 17, 2016, the Nevada Gaming Commission approved amendments to GPIC and GPI USA's Order to confirm that GPI USA is permitted to manufacture/distribute associated equipment in addition to its previously-granted licenses/approvals.

The Nevada Gaming Commission may require anyone having a material relationship or involvement with GPIC or GPI USA to be found suitable or licensed. Additionally, the Nevada Gaming Commission may require an application for a finding of suitability from any officer, director, employee, shareholder of GPIC or any officer, director or employee of GPI USA if the Nevada Gaming Commission determines that Nevada policies regarding gaming would be served by such action. The applicant is required to pay all costs of such investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being directed to do so by the Nevada Gaming Commission may be found unsuitable based solely on such failure or refusal. Any person found unsuitable and who holds, directly or indirectly, any record or beneficial ownership of the equity or debt security beyond such period of time prescribed by the Nevada Gaming Commission may be violation of Nevada law.

Any change in control of GPIC or GPI USA through merger, consolidation, acquisition of assets, management or consulting agreements, or any form of takeover cannot occur without prior approval by the Nevada Gaming Commission.

#### *New Jersey Gaming Regulation*

GPIC's subsidiaries are currently required to be licensed under the New Jersey Casino Control Act as casino service industries qualified to manufacture and sell gaming-related products to casinos in New Jersey. As part of such licensure, parent companies, holding companies and certain officers and directors of the companies are required to be found suitable by the New Jersey Casino Control Commission, the New Jersey Commission or the Division of Gaming Enforcement. The sale and distribution of gaming equipment to casinos in New Jersey is also subject to the New Jersey Casino Control Act and the regulations promulgated thereunder by the New Jersey Commission.

The New Jersey Commission has broad discretion in promulgating and interpreting regulations under the New Jersey Casino Control Act. Amendments and supplements to the New Jersey Casino Control Act, if any, may be of a material nature, and accordingly may adversely affect the ability of a company or its employees to obtain any required licenses, permits and approvals from the New Jersey Commission, or any renewals thereof. The current regulations govern licensing requirements, standards for qualification, persons required to be qualified, disqualification criteria, competition, investigation of supplementary information, duration of licenses, record keeping, causes for suspension, standards for renewals or revocation of licenses, equal employment opportunity requirements, fees and exemptions. In deciding to grant a license, the New Jersey Commission may consider, among other things, the financial stability, integrity, responsibility, good character, and reputation for honesty, business ability and experience of the applicant and its directors, officers, management and supervisory personnel, principal employees and stockholders as well as the adequacy of the financial resources of the applicant.

New Jersey licenses are granted for a period of three or four years, depending on the length of time a company has been licensed, and if they are renewable. The New Jersey Commission may impose such conditions upon licensing, as it deems appropriate. These include the ability of the New Jersey Commission to require the applicant or licensee to report the names of all its stockholders as well as the ability to require any stockholders whom the New Jersey Commission finds not qualified to dispose of the stock, not receive dividends, not exercise any rights conferred by the shares, nor receive any remuneration from the licensee for services rendered or otherwise. Failure of such stockholder to dispose of such stockholder's stock could result in the loss of the license. Licenses are also subject to suspension, revocation or refusal for sufficient cause, including the violation of any law. In addition, licensees are also subject to monetary penalties for violations of the New Jersey Casino Control Act or the regulations of the New Jersey Commission.

#### *Other Gaming Jurisdictions*

In addition to Nevada and New Jersey, our subsidiaries are currently licensed in a many other jurisdictions. Although the regulations in these jurisdictions are not identical to the states of Nevada or New Jersey, their material attributes are substantially similar, and are summarized below.

The manufacture, sale and distribution of gaming supplies in each jurisdiction are subject to various state, county and/or municipal laws, regulations and ordinances, which are administered by the relevant regulatory agency or agencies in that jurisdiction. These laws, regulations and ordinances primarily concern the responsibility, financial stability and character of gaming supply and equipment owners, distributors, sellers and operators, as well as persons financially interested or involved in gaming or liquor operations. In many jurisdictions, selling or distributing gaming supplies may not be conducted unless proper licenses are obtained. An application for a license may be denied for any cause which the gaming regulators deem reasonable. To ensure the integrity of manufacturers and distributors of gaming supplies, most jurisdictions have the authority to conduct background investigations of a company, its key personnel and significant stockholders. The gaming regulators may at any time revoke, suspend, condition, limit or restrict a license for any cause deemed reasonable by the gaming regulators. Fines for violation of gaming laws or regulations may be levied against the holder of a license and persons involved. Our subsidiaries and their respective key personnel have obtained all licenses necessary for the conduct of their respective business in the jurisdictions in which they sell and distribute gaming equipment and supplies. Suspension or revocation of such licenses could have a material adverse effect on our operations.

#### *Federal Gaming Registration*

The Federal Gambling Devices Act of 1962 (Federal Act) makes it unlawful for a person to manufacture, transport, or receive gaming machines, gaming devices (including roulette wheels) or components across interstate lines unless that person has first registered with the Attorney General of the United States Department of Justice. In addition, the Federal Act imposes gambling device identification and record keeping requirements. Violation of the Federal Act may result in seizure and forfeiture of the equipment, as well as other penalties. Our subsidiaries, which are involved in the manufacture and transportation of roulette wheels, are required to register annually.

#### *Native American Gaming Regulation*

Gaming on Native American lands is governed by federal law, tribal-state compacts, and tribal gaming regulations. The Indian Gaming Regulatory Act of 1988 (IGRA) provides the framework for federal and state control over all gaming on Native American lands and is administered by the National Indian Gaming Commission and the Secretary of the United States Department of the Interior. The IGRA requires that a tribe and the state in which the tribe is located enter into a written agreement, a tribal-state compact, which governs the terms of the gaming activities. Tribal-state compacts vary from state-to-state and in many cases require equipment manufacturers and/or distributors to meet ongoing registration and licensing requirements. In addition, tribal gaming commissions have been established by many Native American tribes to regulate gaming-related activity on Indian lands. Our subsidiaries manufacture and distribute gaming supplies to Native American tribes who have negotiated compacts with their respective states and have received federal approval. Currently, GPI USA is authorized to sell products to Native American casinos in over fifteen states.

#### *International Gaming Regulation*

Certain foreign countries permit the importation, sale and operation of gaming supplies in casino and non-casino environments. Certain jurisdictions require the licensing of manufacturers and distributors of gaming supplies. We and our subsidiaries manufacture and/or distribute gaming supplies to various international markets. We have obtained the required licenses to manufacture and distribute our products in the various foreign jurisdictions where we do business.

While the regulatory requirements vary from jurisdiction to jurisdiction, most require licenses, permits, findings of suitability, documentation of qualification including evidence of financial stability and/or other required approvals for companies who manufacture and distribute gaming equipment, as well as the individual suitability of officers, directors, major stockholders and key employees. Under the various gaming regulations, key personnel generally include the principal stockholders, corporate officers and directors of a corporation and its subsidiaries. Laws of the various gaming regulatory agencies are generally intended to protect the public and ensure that gaming related activity is conducted honestly, competitively, and free of corruption.

#### *Product approvals*

Some of our products are subject to extensive testing and reviews by multiple state, jurisdictional or third-party laboratories. The time required for product testing can be extensive and is subject to a wide range of formal and informal standards that can lead to great uncertainty as to the length of the regulatory approval process. Additionally, product testing is subject to changing standards, because of this, we may be required to upgrade or revise our products.

