
**MARYLAND LOTTERY and
GAMING CONTROL COMMISSION**

1800 Washington Blvd., Suite 330, Baltimore, Maryland 21230

COMMISSION REPORT



Arrow International, Inc.

MANUFACTURER LICENSE APPLICANT

Report Date: March 8, 2017

“Public Report”

Introduction

As a prerequisite to being eligible for a video lottery facility manufacturer license (“manufacturer license”), an applicant must submit a Manufacturer License Application to the Maryland Lottery and Gaming Control Commission (“the Commission”). The applicant must prove to the Commission, by clear and convincing evidence, that it meets the qualification criteria set forth in State Gov’t (“SG”) § 9-1A-01, *et seq.* (“the Gaming Law”). Specifically, the applicant must prove that it is qualified under SG § 9-1A-07(c)(7)(i) through (v), and not disqualified under SG § 9-1A-08(d). An applicant must provide all information to the Commission that is necessary for a qualification determination as to the applicant and its principals.

The Maryland Lottery and Gaming Control Agency (“MLGCA,” “we” or “our”), conducted a suitability background license investigation of Arrow International Inc. (“the Applicant”) in connection with its application for a manufacturer license filed with the Commission.

Financial Suitability Review**Background**

Arrow International, Inc. (the “Company”) was incorporated in Ohio on October 23, 1967, and has its principal manufacturing facility and administrative offices located at 9900 Clinton Road, Brooklyn, Ohio. Arrow International manufactures, markets and distributes a line of bingo products including bingo paper, pull-tab tickets, ink markers, electronic bingo equipment and various accessories. The products are sold through a network of subsidiaries, affiliates and independently owned distributors to customers throughout the United States, Canada and the United Kingdom. The company also provides its customers with sales training and support, and promotional sales tools. Arrow International is currently licensed by gaming regulatory authorities in 30 states, four (4) Canadian provinces, and one tribal gaming commission.

Ownership of Arrow International, Inc.

The Gallagher family privately owns Arrow International, Inc. with the following individuals owning 5% or more of the Company’s stock:

- Dennis P. Gallagher (27.09%)
- John E. Gallagher, Jr. (12.39%)
- Jeannie M. Gallagher (11.44%)

- Kathleen M. Gallagher-Miller (9.90%)
- Hugh F. Gallagher (9.90%)
- Andrew W. Gallagher (9.90%)

Discussion of Financial Performance

We performed a review of the Company's financial statements over the five-year period from January 1, 2011 to December 31, 2015. We reviewed the following:

Revenues and Expenses

Balance Sheet

Supplemental Discussion of Recent Financial Performance

We performed a supplemental review of the Company's financial performance for the first eleven months of calendar year 2016 as the Company's full-year audited financial statements for 2016 were not available as of the time of our review.

Liquidity and Cash Flow

Borrowing Capacity

Trend Analysis and Comparative Performance

We conducted a trend analysis of Arrow International, Inc.'s operating performance and financial strength over the period from January 1, 2011 to November 30, 2016, and compared its recent performance to that of four competitors in its industry:

Current Ratio and Quick Ratio-

Returns on Equity and Assets –

Operating Profit Margins and Net Profit Margin –

Return on Equity and Return on Assets –

Debt to Equity Ratio and Debt Ratio –

Inventory Turnover Ratio-

Accounts Receivable Turn Over Ratio -

Annual Financial Review

Federal Tax Returns

Dun & Bradstreet

Financial Analysis

Arrow International, Inc.'s operating performance during the period reviewed can be characterized as consistently positive. Although revenues declined modestly over time, the Company effectively controlled costs of sales and operating expenses, thereby preserving its positive operating profit margins.

Arrow's operating performance has been bolstered by material capital gains from the sale of investment securities, thus contributing to its overall profits during calendar years 2011-2015. Although the sale of investments is outside of Arrow's normal business operations, it has added to the Company's already positive cash flow and liquidity generated through its operations, which enabled the Company to

readily meet its financial demands and make substantial distributions to shareholders. Additionally, its operating performance has improved significantly during the first eleven months of 2016 as revenue has stabilized while operating expense decreased. The Company's financial condition has also remained very positive throughout the period reviewed as it is virtually debt free with no long-term obligations, and a considerable amount of borrowing capacity available should the need arise in the future. There are no areas of concern with Arrow International, Inc.'s financial suitability for licensure as a Manufacturer.

FINDINGS

The MLGCA conducted a complete and thorough background investigation as authorized under the Gaming Law by analyzing corporate records and documents, scrutinizing the business operations, practices, and transactions of Arrow International, Inc., and conducting interviews of key personnel, focusing on required qualification criteria involving integrity and financial stability. MLGCA adhered to well defined and approved investigative protocols in assembling the information incorporated in this report. The results of the investigation for the specific qualification criteria enunciated in SG §§ 9-1A07(c) (7) and 9-1A-08(d) are summarized as follows:

1) Financial stability, integrity and responsibility

A comprehensive review was conducted of all of the consolidated financial statements for the last five years. Arrow International Inc. satisfies the standards for financial stability, integrity and responsibility. MLGCA also concludes that all of the individual qualifiers (principals) satisfy the Gaming Law's qualification criteria in connection with the manufacturer license application.

2) Integrity of financial backers, investors, mortgages, bondholders, and other holders of indebtedness

Based on our review, there are no material issues involving the known financial backers of the Applicant.

3) Good character, honesty, and integrity

MLGCA found that Arrow International Inc. possesses the requisite good character, honesty and integrity. No significant issues surfaced concerning the qualifications of the Applicant or its individual qualifiers.

There were no material issues discovered pertaining to Arrow International, Inc.'s record of regulatory compliance or litigation matters.

4) Sufficient business ability and experience

Arrow International, Inc. manufactures, markets, distributes a line of Bingo products including bingo paper, pull-tab tickets, ink markers, electronic bingo equipment, and various accessories, and clearly possesses the requisite business ability and experience.

5) Potential Disqualifying factors

The Applicant is not disqualified from being issued a manufacturer license based on any of the criterion listed in section 9-1A-08 (D). The Applicant is qualified to be awarded a license by the Commission.

PRINCIPAL QUALIFIERS

We identified the below listed natural person qualifiers (“principals”) who are associated with the Applicant. We conducted an extensive due diligence investigation on each qualifier, as described in our full report. The applicant, Arrow International, Inc., is owned 27.09% by Dennis P. Gallagher, 12.39% by John E. Gallagher, 11.44% by Jeannie M. Gallagher, 9.90% by Kathleen M. Gallagher-Miller, 9.90% by Hugh F. Gallagher, and 9.90% by Andrew W. Gallagher. We found that these principals have satisfied the applicable

qualification criteria under SG § 9-1A-07(c) (7), and that none are disqualified under SG § 9-1A-08(d).

1. Dennis P. Gallagher- President
2. John E. Gallagher, Jr.- President
3. Jeannie M. Gallagher- Director
4. Kathleen M. Gallagher- Director
5. Hugh F. Gallagher- Sales
6. Andrew W. Gallagher- Shareholder
7. Frederick L. Graf – Vice President, Secretary and Treasurer

CONCLUSIONS and OPINION

MLGCA’s investigation has confirmed that the Applicant has sufficient financial resources and found no derogatory information regarding the Applicant’s qualifications. MLGCA has not found any disqualifying factors that would preclude the Applicant from being issued a Manufacturer License. Based on the criteria in SG §§ 9-1A-07(c)(7) and 9-1A-08(d), we conclude that the Applicant and its principals have established by clear and convincing evidence their qualifications for a Manufacturer License.