
MARYLAND LOTTERY and GAMING CONTROL COMMISSION

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

COMMISSION REPORT



JCM American Corporation

MANUFACTURER LICENSE RENEWAL APPLICANT

Report Date: August 11, 2017

“PUBLIC REPORT”

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Introduction

As a prerequisite to being eligible for the renewal of a video lottery facility manufacturer license (“manufacturer license”), a manufacturer of a video lottery terminal (“VLT”), table game, or associated equipment must submit a Manufacturer License Renewal Application to the Maryland Lottery and Gaming Control Commission (“the Commission”). The applicant must prove to the Commission that it meets the qualification criteria set forth in the Annotated Code of Maryland, State Gov’t Article (“SG”), § 9-1A-01, *et seq.* (“the Gaming Law”). Specifically, an applicant for a manufacturer license must prove, by clear and convincing evidence, that it is qualified under SG § 9-1A-07(c)(7)(i) through (v), and not disqualified under SG § 9-1A-08(d). SG § 9-1A-15. An applicant must provide all information to the Commission that is necessary for a qualification determination as to the applicant, its principals, and its principal entities.

The Maryland Lottery and Gaming Control Agency (“MLGCA,” “we” or “our”), conducted a suitability background license investigation of JCM American Corporation (“the Applicant” or “the Company”) in connection with its application for renewal of its manufacturer license. The Company was initially approved for a manufacturer license by the Commission on February 23, 2012. The Company has maintained its initial five-year manufacturer

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license in good standing and has not been subject to any disciplinary sanctions by the Commission.

Background

JCM American Corporation (the “Company”) was incorporated in Nevada in June 1998 and has its principal office located at 925 Pilot Road, Las Vegas, Nevada. JCM American Corporation does business under the name JCM Global, and its operations consist of importing and selling bill validators, thermal printers and other cash-handling equipment, as well as providing related repair and maintenance services. JCM American Corporation is a wholly owned subsidiary of Japan Cash Machine Co., Ltd. which in turn is a direct subsidiary of Johto Investment and Development, Inc. JCM American Corporation is the direct parent to its wholly owned subsidiary JCM Innovation Corporation. On August 29, 2014, the Company, through JCM Innovation Corporation acquired FutureLogic Group, LLC to expand its product offerings to gaming and commercial customers and to increase its presence worldwide. The Company is currently licensed by ten state regulatory gaming authorities, 74 tribal gaming commissions and agencies, and gaming authorities in Canada, Macau and Puerto Rico.

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Ownership of JCM American Corporation and its Affiliates

As previously noted, JCM American Corporation is a wholly owned subsidiary of Japan Cash Machine Co., Ltd., which was formed in Japan in January 1955. Japan Cash Machine is publically traded on the Tokyo Stock Exchange and as of March 31, 2017, it had 29,662,851 shares of its common stock issued and outstanding. The shareholders holding 5% or more of its outstanding shares are:

- Johto Investment and Development, Inc. - 4,661,713 shares (15.72%)
- Koichiro Kamihigashi - 2,707,246 shares (9.13%)

Johto Investment and Development, Inc. was formed in Japan in November 1969 and is a holding company for Japan Cash Machine Co. Ltd. Johto is a privately held company, and as of March 31, 2017, it had 20,000 shares of common stock issued and outstanding. The shareholders of record with 5% or more of Johto's common stock are as follows:

- Koichiro Kamihigashi - 7,000 shares (35%)
- Yojiro Kamihigashi – 7,280 shares (36.4%)
- The Shuzo Kamihigashi Gaming Trusts - 5,462 shares (27.31%)

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The trustees of The Shuzo Kamihigashi Gaming Trusts are Yojiro Kamihigashi and Koichiro Kamihigashi, and Shuzo Kamihigashi is the sole beneficiary of both trusts.

By virtue of ownership interest in Johto Investment and Development, Inc. and Japan Cash Machine Co., Ltd., the following individuals have a 5% or greater ownership interest in JCM American Corporation:

- Koichiro Kamihigashi (14.63%)
- Yojiro Kamihigashi (5.72%)

Johto Investment and Development, Inc., and Japan Cash Management Co., Ltd. have submitted Principal Entity Disclosure Forms to the Maryland Lottery and Gaming Control Commission. Koichiro Kamihigashi and Yojiro Kamihigashi have submitted Principal Employee Renewal Applications to the Commission.

Review of Financial Operating Results

We performed a detailed analysis of JCM American Corporation's operating performance and financial condition for the period beginning January 1, 2012 and ending December 31, 2016. We reviewed the following:

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Revenues and Expenses

Balance Sheet

Liquidity and Cash Flow

Long-Term Debt

Related-Party Transactions

Trend Analysis and Comparative Performance

Current Ratio and Quick Ratio

Operating Profit Margin and Net Profit Margin

Return on Equity and Return on Assets

Debt to Equity Ratio and Debt Ratio

Independent Audit of Annual Consolidated Financial Statements

Internet Litigation Search

Tax Returns

Dun & Bradstreet

Financial Analysis

JCM American Corporation's operating performance has generally been positive and has improved over the five-year period reviewed. The Company increased revenue over the review period and effectively managed costs,

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resulting in improving profit margins. This has also resulted in net profits in most periods, growing shareholder equity, and positive net operating cash flows. The Company's financial position is strong as it has maintained an adequate level of working capital and a manageable debt load that has not had a materially adverse impact on the Company's operating results or cash flows. There is no indication that JCM American Corporation is experiencing any financial distress, and the Company's auditors have not expressed any concerns with the Company's financial operations or condition. There are no areas of concern with JCM American Corporation's financial suitability for re-licensure as a Manufacturer or with Johto Investment and Development, Inc.'s or Japan Cash Machine Co., Ltd.'s suitability as Principal Entities.

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 JCM American Corporation 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 factual information incorporated in

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this report. The results of the investigation for the specific qualification criteria enunciated in SG §§ 9-1A-07(c)(7), 9-1A-08(d), and 9-1A-15 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. The Applicant satisfies the standards for financial stability, integrity and responsibility. MLGCA also concludes that the individual qualifiers (principals) satisfy the Gaming Law's qualification criteria in connection with the Manufacturer License Renewal 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 the Applicant possesses the requisite good character, honesty and integrity. No significant issues surfaced concerning the

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qualifications of the Applicant or its individual qualifiers. There were no material issues discovered pertaining to the Applicant's record of regulatory compliance or litigation matters.

4) Sufficient business ability and experience

JCM American Corporation does business under the name JCM Global, and its operations consist of importing and selling bill validators, thermal printers and other cash-handling equipment, as well as providing related repair and maintenance services. The Applicant 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 criteria listed in SG § 9-1A-08(d). The Applicant is qualified to be awarded a license by the Commission.

APPLICANT and PRINCIPAL ENTITIES

The Applicant and its principal entities satisfy the applicable qualification criteria under SG § 9-1A-07(c)(7), and is not disqualified under SG § 9-1A-08(d).

PRINCIPAL QUALIFIERS

We identified the following 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. 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. Koichiro Kamihigashi – President (Board of Directors & Operating Officers) – Japan Cash Machine Co., Ltd.
2. Yojiro Kamihigashi – President – Japan Cash Machine Co., Ltd.
3. Hikaru Izawa – President/Director – JCM American Corporation
4. John Garner – CFO/Secretary/Treasurer/Director – JCM American Corporation

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. Based on the criteria in SG §§ 9-1A-07(c)(7) and

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9-1A-08(d), we conclude that the Applicant and its principals have established by clear and convincing evidence their qualifications for the renewal of its manufacturer license.