Entertainment Gaming Asia Inc.
Form 10-Q
August 15, 2016

**FORM 10-Q**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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

**For the Quarterly Period Ended June 30, 2016**

**OR**

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

**For the transition period from to .**

**Commission file number: 001-32161**

**Entertainment Gaming Asia Inc.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Nevada** | **91-1696010** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification no.) |

**37/F, The Centrium**

**60 Wyndham Street**

**Central, Hong Kong SAR**

(Address of principal executive offices, including zip code)

**+ 852-3147-6600**

(Registrant’s telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act):

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer x<br>(Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

As of August 1, 2016, 14,464,220 shares of common stock of Entertainment Gaming Asia Inc. were outstanding.

**PART I — FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ENTERTAINMENT GAMING ASIA INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**(amounts in thousands, except per share data)**

| | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 33,035 | $ 30,681 |
| Accounts receivable, net | 848 | 724 |
| Amounts due from related parties | 94 | 257 |
| Other receivables | 1,565 | 78 |
| Inventories | 99 | 2,378 |
| Prepaid expenses and other current assets | 238 | 295 |
| Contract amendment fees | — | 18 |
| Total current assets | 35,879 | 34,431 |
| | | |
| Gaming equipment, net | 2,275 | 2,985 |
| Casino contracts | — | 528 |
| Property and equipment, net | 1,318 | 5,919 |
| Goodwill | 334 | 332 |
| Intangible assets, net | 1,144 | 391 |
| Deferred tax asset | 275 | 274 |
| Prepaids, deposits and other assets | 1,440 | 425 |
| Total assets | $ 42,665 | $ 45,285 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 586 | $ 288 |
| Amounts due to related parties | 28 | 239 |
| Accrued expenses | 1,565 | 1,755 |
| Income tax payable | 180 | 2 |
| Deferred revenue | — | 9 |
| Customer deposits and other current liabilities | 42 | 529 |

| | | |
|---|---|---|
| Total current liabilities | 2,401 | 2,822 |
| | | |
| Other liabilities | 906 | 880 |
| Deferred tax liability | 28 | 29 |
| Total liabilities | 3,335 | 3,731 |
| Commitments and contingencies | | |
| | | |
| Stockholders' equity: | | |
| Common stock, $.001 par value, 38,000,000 shares authorized; 14,464,220 shares issued and outstanding | 14 | 14 |
| Additional paid-in-capital | 47,784 | 47,763 |
| Accumulated other comprehensive income | 706 | 709 |
| Accumulated losses | (9,175) | (6,933) |
| Total EGT stockholders' equity | 39,329 | 41,553 |
| Non-controlling interest | 1 | 1 |
| Total stockholders' equity | 39,330 | 41,554 |
| Total liabilities and stockholders' equity | $ 42,665 | $ 45,285 |

The notes to consolidated financial statements are an integral part of these consolidated statements.

**ENTERTAINMENT GAMING ASIA INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Loss/Income**

**(amounts in thousands, except per share data)**

**(Unaudited)**

| | Three-Month Period Ended June 30, | | **Six-Month Period Ended June 30,** | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Gaming operations | $2,275 | $4,914 | $6,125 | $8,924 |
| Operating costs and expenses: | | | | |
| Cost of gaming operations | | | | |
| Gaming property and equipment depreciation | 392 | 782 | 874 | 1,601 |
| Casino contract amortization | 94 | 611 | 528 | 1,222 |
| Other gaming related intangibles amortization | 33 | 63 | 96 | 126 |
| Other operating costs | 558 | 969 | 1,953 | 1,791 |
| Selling, general and administrative expenses | 1,066 | 1,137 | 2,108 | 2,546 |
| Gain on disposition of assets | (21) | (20) | (21) | (24) |
| Research and development expenses | 87 | — | 485 | — |
| Depreciation and amortization | 22 | 33 | 54 | 68 |
| Total operating costs and expenses | 2,231 | 3,575 | 6,077 | 7,330 |
| Income from operations | 44 | 1,339 | 48 | 1,594 |
| Other (expenses)/income: | | | | |
| Interest expense and finance fees | — | (2) | — | (3) |
| Interest income | 2 | 3 | 5 | 6 |
| Foreign currency (losses)/gains | (44) | (25) | 9 | (29) |
| Other | 6 | 5 | 11 | 11 |
| Total other (expenses)/income | (36) | (19) | 25 | (15) |
| Income from continuing operations before income tax | 8 | 1,320 | 73 | 1,579 |
| Income tax expenses | (89) | (17) | (208) | (37) |
| Net (loss)/income from continuing operations | (81) | 1,303 | (135) | 1,542 |
| Net (loss)/income from discontinued operations, net of tax | (686) | 158 | (2,107) | 490 |
| Net (loss)/income attributable to EGT stockholders | $(767) | $1,461 | $(2,242) | $2,032 |
| Other comprehensive loss: | | | | |

| | | | | |
|---|---|---|---|---|
| Foreign currency translation | (32) | (16) | (3) | (15) |
| Total other comprehensive loss, net of tax | (32) | (16) | (3) | (15) |
| | | | | |
| Comprehensive (loss)/ income attributable to EGT stockholders | $(799) | $1,445 | $(2,245) | $2,017 |
| | | | | |
| Per share data (basic and diluted): | | | | |
| (Loss)/earnings | $(0.05) | $0.10 | $(0.16) | $0.14 |
| (Loss)/earnings from continuing operations | $(0.01) | $0.09 | $(0.01) | $0.11 |
| (Loss)/earnings from discontinued operations, net of tax | $(0.04) | $0.01 | $(0.15) | $0.03 |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic | 14,462 | 14,458 | 14,461 | 14,454 |
| Diluted | 14,462 | 14,477 | 14,461 | 14,474 |

The notes to consolidated financial statements are an integral part of these consolidated statements.

**ENTERTAINMENT GAMING ASIA INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**(amounts in thousands)**

**(Unaudited)**

| | Six-Month Period Ended June 30, 2016 | 2015 |
|---|---|---|
| Cash flows (used in)/provided by operating activities: | | |
| Net (loss)/income from continuing operations | $ (135) | $ 1,542 |
| Adjustments to reconcile net (loss)/income from continuing operations to net cash (used in) / provided by operating activities: | | |
| Depreciation of gaming equipment and property and equipment | 928 | 1,669 |
| Amortization of casino contracts | 528 | 1,222 |
| Amortization of intangible assets | 96 | 126 |
| Amortization of contract amendment fees | 18 | 54 |
| Stock-based compensation expenses | 21 | 50 |
| Gain on disposition of assets | (21) | (24) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and other receivables | (304) | — |
| Inventories | 14 | 15 |
| Prepaid expenses and other current assets | 43 | (178) |
| Prepaids, deposits and other assets | (49) | (10) |
| Accounts payable | 113 | 2 |
| Amounts due from/to related parties | (218) | — |
| Accrued expenses, customer deposits and others | (55) | (371) |
| Income tax payable | 178 | 8 |
| Other liabilities | (4) | (14) |
| Operating cash provided by continuing operations | 1,153 | 4,091 |
| Operating cash (used in)/provided by discontinued operations | (1,679) | 4,444 |
| Net cash (used in)/provided by operating activities | (526) | 8,535 |
| Cash flows provided by/(used in) investing activities: | | |
| Purchases of property and equipment | (31) | (178) |
| Purchases of gaming machines and systems | (45) | (542) |
| Proceeds from sale of assets | 21 | 42 |
| Proceeds from sale of subsidiary related to discontinued operations | — | 200 |
| Development/purchase of intangibles | (1,036) | — |
| Investing cash used in continuing operations | (1,091) | (478) |
| Investing cash provided by/(used in) discontinued operations | 3,970 | (734) |

| | | |
|---|---|---|
| Net cash provided by/(used in) investing activities | 2,879 | (1,212) |
| | | |
| Cash flows used in financing activities: | | |
| Net cash used in financing activities | — | — |
| | | |
| Effect of exchange rate changes on cash | 1 | 14 |
| Increase in cash and cash equivalents | 2,354 | 7,337 |
| Cash and cash equivalents at beginning of period | 30,681 | 17,301 |
| Cash and cash equivalents at end of period | $ 33,035 | $ 24,638 |

The notes to consolidated financial statements are an integral part of these consolidated statements.

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**ENTERTAINMENT GAMING ASIA INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Note 1. Description of Business and Significant Accounting Policies**

The current business activities of the Company entail: (i) the owning and leasing of electronic gaming machines (EGMs) placed in resorts, hotels and other venues in Cambodia and the Philippines on a fixed lease or revenue-sharing basis with venue owners; and (ii) the development of a social gaming platform designed for the Pan-Asian market.

During the reported periods, the Company also operated in the gaming products business, which entailed the design, manufacture and distribution of gaming chips and plaques as well as the distribution of third-party gaming products. On May 11, 2016, the Company sold the principal assets of these operations and has exited this business. All related historical revenues and expenses for these operations have been reclassified as discontinued operations. The accounting policies of these discontinued operations are consistent with the Company's policies for the accompanying consolidated financial statements.

***Basis of Presentation***

These consolidated financial statements are prepared pursuant to generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC") and reflect all adjustments, consisting of normal recurring adjustments and other adjustments, which management believes are necessary to fairly present the financial position, results of operations and cash flows of the Company, for the respective periods presented. The results of operations for an interim period are not necessarily indicative of the results that may be expected for any other interim period or the year as a whole. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 30, 2016.

The Company effected a 1-for-4 reverse stock split of its common shares as of February 26, 2015. All historical share amounts and share price information presented in the financial statements and notes have been proportionally adjusted to reflect the impact of this reverse stock split, including but not limited to basic and diluted weighted-average shares issued and outstanding.

***Principles of Consolidation***

These consolidated financial statements include the accounts of Entertainment Gaming Asia Inc. and all its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

***Use of Estimates***

The Company is required to make estimates, judgments and assumptions that it believes are reasonable based on its historical experience, contract terms, observance of known trends in the Company and the industry as a whole, and information available from other outside sources. These estimates affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On a regular basis, the Company evaluates its estimates, including those related to revenue recognition, product returns, long-lived assets, inventory obsolescence, stock-based compensation, income taxes, bad debts, warranty obligations, long-term contracts, contingencies and litigation. Actual results may differ from those estimates.

***Discontinued Operations***

A discontinued operation is a component of an entity (or group of components) that either has been disposed of, or that is classified as held for sale, and represents a strategic shift that has (or will have) a major effect on the Company’s operations and financial results.

Non-current assets held for discontinued operations are carried at the lower of carrying amount or fair value less costs to sell. Any gain or loss from disposal of a business, together with the results of these operations until the date of disposal, is reported separately as discontinued operations. The financial information of discontinued operations is excluded from the respective captions in the Company's consolidated statements of comprehensive loss/income and related notes for all periods presented.

***Cash and Cash Equivalents***

All highly-liquid instruments with original maturities of three months or less are considered cash equivalents. The Company places its cash and temporary investments with financial institutions. As of June 30, 2016, the Company had deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) insured limits by approximately $32.8 million.

***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable are stated at face value less any allowances for doubtful accounts. Allowances for doubtful accounts are maintained at levels determined by Company management to adequately provide for uncollectible amounts. In determining the estimated uncollectable amounts, the Company evaluates a combination of factors, including, but not limited to, activity in the related market, financial condition of customers, specific customer collection experience and history of write-offs and collections. Interest income is imposed on overdue accounts receivable after the Company evaluates a combination of factors, including but not limited to, customer collection experiences, customer relationship and contract terms. Accounts receivable balances are written off after all collection efforts have been exhausted.

***Inventories***

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. Cost elements included in work-in-process and finished goods include raw materials, direct labor and manufacturing overheads. Inventories did not include lower of cost or market (LCM) write-downs as of June 30, 2016 and 2015.

***Long-Lived Assets***

The Company accounts for impairment of long-lived assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification or ASC, ASC 360, *Property, Plant and Equipment*. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such instances, the Company estimates the undiscounted future cash flows that result from the use of the asset and its ultimate disposition. If the sum of the undiscounted cash flows is less than the carrying value, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset, determined principally using discounted cash flows. Impairment charges for long-lived assets of approximately $1.3 million were included in the net loss/income from discontinued operations in the consolidated statements of comprehensive loss/income for three-month and six-month periods ended June 30, 2016. There were no impairment charges for long-lived assets for the three-month and six-month periods ended June 30, 2015.

***Prepaids, Deposits and Other Assets***

Prepaids, deposits and other assets consist primarily of prepaid value-added taxes in foreign countries, prepayment to suppliers and other receivables, rental and utilities and other deposits.

***Gaming Equipment***

Gaming equipment consists primarily of EGMs and systems. Gaming equipment is stated at cost. The Company depreciates new EGMs and systems over a five-year useful life and depreciates refurbished EGMs and systems over a three-year useful life once placed in service. Depreciation of gaming equipment of approximately $335,000 and $620,000 and $760,000 and $1.3 million was included in cost of gaming operations in the consolidated statements of comprehensive loss/income for the three-month and six-month periods ended June 30, 2016 and 2015, respectively.

***Property and Equipment***

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the useful lives of the assets currently estimated to be three to ten years, which in the case of leasehold improvements, is limited to the life of the lease and throughout the renewal period as long as renewal is reasonably assured.

The Company capitalizes certain direct and incremental costs related to the design and construction, project payroll, and applicable portions of interest incurred for potential projects in property and equipment.

Depreciation of property and equipment of approximately \$57,000 and \$162,000 and \$114,000 and \$321,000 was included in the cost of gaming operations in the consolidated statements of comprehensive loss/income for the three-month and six-month periods ended June 30, 2016 and 2015, respectively.

***Goodwill and Intangible Assets, Including Casino Contracts***

Intangible assets consist of patents, trademarks, technical know-how, gaming operation agreement, casino contracts, internal-used software and goodwill. Intangible assets other than goodwill are amortized on the straight-line basis over the period of time the asset is expected to contribute directly or indirectly to future cash flows, which ranges from four to ten years. The straight-line amortization method is utilized because the Company believes there is no more reliably determinable method of reflecting the pattern for which the economic benefits of the intangible assets are consumed or otherwise used.

The Company capitalizes certain costs relating to software developed to solely meet the Company’s internal requirements and for which there are no substantive plans to market the software. These costs mainly include payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software projects during the application development stage until the software is substantially complete and ready for its intended use. The Company also capitalizes certain costs related to the development of the social gaming application for marketing purposes. These costs are capitalized once technological feasibility has been established. Costs incurred prior to the criteria met for capitalization are expensed to research and development expenses as incurred. Management has committed the resources of developing a social gaming application, and it is probable that the social gaming application will be completed and the software will be used as intended. Such capitalized costs are amortized on a straight-line basis over the estimated useful life of the related assets.

Amortization expenses related to casino contracts were approximately $94,000 and $611,000 and $528,000 and $1.2 million for the three-month and six-month periods ended June 30, 2016 and 2015, respectively. Amortization expenses related to other gaming related intangibles were approximately $33,000 and $63,000 and $96,000 and $126,000 for the three-month and six-month periods ended June 30, 2016 and 2015, respectively. These amounts were accounted for as cost of gaming operations in the consolidated statements of comprehensive loss/income.

The Company measures and tests finite-lived intangibles for impairment when there are indicators of impairment in accordance with ASC 360-10-05, *Property, Plant and Equipment*.

The Company measures and tests goodwill for impairment, at least annually in accordance with ASC 350-10-05, *Intangibles — Goodwill and Other*.

Impairment testing for goodwill and other intangibles requires judgment, including the identification of reporting units, allocation of related goodwill, assignment of corporate shared assets and liabilities to reporting units, estimated future cash flows and determinations of fair values. While the Company believes its estimates of future revenues and future cash flows are reasonable, different assumptions could materially affect the assessment of useful lives, recoverability and fair values. No impairment charges relating to intangible assets were recorded for the three-month and six-month periods ended June 30, 2016 and 2015.

***Litigation and Other Contingencies***

In the performance of its ordinary course of business operations, the Company is subject to risks of various legal matters, litigation and claims of various types. The Company has regular litigation reviews, including updates from corporate and outside counsel, to assess the need for accounting recognition or disclosure of these contingencies. See Note 16.

ASC 450, *Contingencies,* requires that liabilities for contingencies be recorded when it is probable that a liability has been incurred and that the amount can be reasonably estimated. Significant management judgment is required related to contingent liabilities and the outcome of litigation because both are difficult to predict. For a contingency for which an unfavorable outcome is reasonably possible and which is significant, the Company discloses the nature of the contingency and, when feasible, an estimate of the possible loss.

***Revenue Recognition***

The Company recognizes revenue when all of the following have been satisfied:

- Persuasive evidence of an arrangement exists;
- The price to the customer is fixed and determinable;
- Delivery has occurred and any acceptance terms have been fulfilled;
- No significant contractual obligations remain; and
- Collection is reasonably assured.

*Gaming Operations Revenue and Promotional Allowances*

The Company earns recurring gaming revenue from its gaming operations.

For gaming operations, the Company earns recurring revenue by providing customers with EGMs and casino management systems which track game performance and provide statistics on installed EGMs owned by the Company and leased to venue owners. Revenues are recognized on the contractual terms of the EGM agreements between the Company and the venue owners and are based on either a fixed lease fee or the Company’s share of net winnings and reimbursement of expenses, net of customer incentives and commitment fees.

Revenues are recognized as earned unless collection is not reasonably assured, in which case revenues are recognized when the payment is received. All slot operations revenues were recognized as earned during the three-month and six-month periods ended June 30, 2016 and 2015.

Commitment fees paid to the venue operators relating to contract amendments which are not recoverable from daily net win are capitalized as assets and amortized as a reduction of revenue over the term of the amended contracts. The Company had commitment fee balances related to contract amendments of $NIL and approximately $18,000 as of June 30, 2016 and December 31, 2015, respectively.

*Gaming Products Sales*

For the discontinued gaming products business, the Company recognized revenue from the sale of its gaming products and accessories to end users upon shipment against customer contracts or purchase orders. In accordance with the criteria of ASC 605-45, *Reporting Revenue Gross as a Principal versus Net as an Agent,* the Company recognized gross revenue when it acted as a principal, had discretion to choose suppliers and establish selling price, assumed credit risk and provided the products or services required in the transaction. If the above criteria were not met, in which the supplier was the primary obligor in the arrangement and bears the general inventory risk, the Company recognized revenue net of related costs. The Company also recognized revenue for the maintenance services of gaming products on the straight line basis over the contract term in accordance with ASC 605, *Revenue Recognition*.

***Stock-Based Compensation***

Under the fair value recognition provisions of ASC 718, *Compensation-Stock Compensation*, the Company recognizes stock-based compensation expenses for all service-based awards to employees and non-employee directors with graded vesting schedules on the straight-line basis over the requisite service period for the entire award. Estimates are revised if subsequent information indicates that forfeitures will differ from previous estimates, and the cumulative effect on compensation cost of a change in the estimated forfeitures is recognized in the period of the change. For non-employee awards, the Company remeasures compensation cost each period until the service condition is complete and recognizes compensation cost on the straight-line basis over the requisite service period. Option valuation models require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the fair value estimates. Judgment is required in estimating stock price volatility, forfeiture rates, expected dividends, and expected terms that options remain outstanding. For restricted stock awards with performance conditions, the Company evaluates if performance conditions are probable in each reporting period. The compensation expense of restricted awards is recognized ratably over the implicit service period if achieving performance conditions is probable. Cumulative catch-up adjustments are required in the event of changes in assessment of probability. See Note 12 for additional information relating to stock-based compensation assumptions. Stock-based compensation expenses totaled approximately $6,000 and $20,000 and $21,000 and $50,000 for the three-month and six-month periods ended June 30, 2016 and 2015, respectively.

***Research and Development***

Research and development expenses are expensed as incurred. Employee-related costs associated with research and development and certain costs associated with the development of the social gaming platform are included in research and development expenses. Research and development expenses were approximately $87,000 and $NIL and $485,000 and $NIL for the three-month and six-month periods ended June 30, 2016 and 2015, respectively.

***Leases***

Leases are classified at the inception date as either a capital lease or an operating lease. A lease is a capital lease if any of the following conditions exists:

- Ownership is transferred to the lessee by the end of the lease term;
- There is a bargain purchase option;

- The lease term is at least 75% of the property's estimated remaining economic life; or
- The present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date.

A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. The Company had no capital leases as of June 30, 2016 and December 31, 2015.

***Income Taxes***

The Company is subject to income taxes in the United States (including federal and state) and several foreign jurisdictions in which it operates. Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax basis and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. ASC 740, *Income Taxes,* requires that deferred tax assets be evaluated for future realization and reduced by a valuation allowance to the extent the Company believes a portion will not be realized. The Company considers many factors when assessing the likelihood of future realization of its deferred tax assets, including its recent cumulative earnings experience and expectations of future taxable income by taxing jurisdiction, the carry-forward periods available to the Company for tax reporting purposes, and other relevant factors.

The Company accounts for uncertain tax positions in accordance with ASC 740, which contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely to be realized upon ultimate settlement. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in the provision for income taxes in the consolidated statements of comprehensive loss/income.

As of that date, the Company’s deferred taxes were reported in conformity with applicable income tax accounting standards described above, net of applicable valuation allowances. Deferred tax assets and liabilities were recognized for differences between the assigned values and the tax basis of the recognized assets and liabilities with corresponding valuation allowances as appropriate.

***(Loss)/Earnings per Share***

Basic (loss)/earnings per share are computed by dividing the reported net (loss)/earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing the net income by the weighted average number of shares of common stock and shares issuable from stock options and restricted shares during the period. The computation of diluted earnings per share excludes the impact of stock options and restricted shares that are anti-dilutive. There was no difference in diluted loss per share from basic loss per share for three-month and six-month periods ended June 30, 2016 as the assumed exercise of common stock equivalents would have an anti-dilutive effect due to losses.

***Foreign Currency Translations and Transactions***

The functional currency of the Company’s international subsidiaries, except for its operations in Cambodia whose functional currency is also U.S. dollars, is generally the local currency. For these subsidiaries, the Company translates the assets and liabilities at exchange rates in effect at the balance sheet date and income and expense accounts at average exchange rates during the year. Resulting currency translation adjustments are recorded directly to accumulated other comprehensive income within stockholders’ equity. Gains and losses resulting from transactions in non-functional currencies are recorded in the consolidated statements of comprehensive loss/income.

Below is a summary of closing exchange rates as of June 30, 2016 and December 31, 2015 and average exchange rates for the three-month and six-month periods ended June 30, 2016 and 2015.

| (US$1 to foreign currency) | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Australian dollar | 1.34 | 1.37 |
| Hong Kong dollar | 7.76 | 7.75 |
| Philippine peso | 46.96 | 47.17 |
| Thai baht | 35.15 | 36.07 |

| | **Three-Month Period Ended June 30,** | | **Six-Month Period Ended June 30,** | |
|---|---|---|---|---|
| (US$1 to foreign currency) | 2016 | 2015 | 2016 | 2015 |
| Australian dollar | 1.34 | 1.27 | 1.36 | 1.28 |
| Hong Kong dollar | 7.76 | 7.76 | 7.77 | 7.75 |
| Philippine peso | 46.52 | 44.44 | 46.9 | 44.55 |
| Thai baht | 35.26 | 32.65 | 35.44 | 32.95 |

***Fair Value Measurement***

Fair value is defined under ASC 820, *Fair Value Measurements and Disclosures*, as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard establishes a fair value hierarchy based on three levels of input, of which the first two are considered observable and the last unobservable.

- Level 1 — Quoted prices in active markets for identical assets or liabilities. These are typically obtained from real-time quotes for transactions in active exchange markets involving identical assets.

- Level 2 — Input, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. These are typically obtained from readily-available pricing sources for comparable instruments.

- Level 3 — Unobservable input, where there is little or no market activity for the asset or liability. This input reflects the reporting entity's own assumptions of the data that participants would use in pricing the asset or liability, based on the best information available under the circumstances.

As of June 30, 2016, the fair values of financial assets and liabilities approximate carrying values due to the short maturity of these items.

***Defined Benefit Pension Plan***

The Company provides pension benefits to all regular full-time employees in the Philippines through a defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The accounting guidance related to employers' accounting for defined benefit pension plan requires recognition in the balance sheet of the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognized actuarial gains or losses and past service costs or credits in other comprehensive income.

There were no adjustments for unrecognized actuarial gains or losses and past service costs or credits to equity through other comprehensive income for the three-month and six-month periods ended June 30, 2016 and 2015.

***Asset Retirement Obligations***

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets. Recognition of a liability for an asset retirement obligation is required in the period in which it is incurred at its estimated fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. The liability is accreted through charges to operating expenses. If the asset retirement obligation is settled for other than the carrying amount of the liability, the Company recognizes a gain or loss on settlement.

The Company records all asset retirement obligations for which we have legal obligations to remove all installation works and reinstate the manufacturing facilities to its original state at estimated fair value. The Company recognized approximately \$5,000 and \$5,000 and \$9,000 and \$9,000 of asset retirement obligation operating costs related to accretion of the liabilities and depreciation of the assets for the three-month and six-month periods ended June 30, 2016 and 2015, respectively. These amounts were included in the net loss/income from discontinued operations in the consolidated statements of comprehensive loss/income.

**Note 2. Segments**

The Company currently conducts business under two operating segments: (i) gaming operations, which include leasing of its owned EGMs on a fixed lease fee or revenue-sharing basis; and (ii) the development of a social gaming platform.

During the reported periods, the Company also operated in the gaming products business, which entailed the design, manufacture and distribution of gaming chips and plaques as well as the distribution of third-party gaming products. On May 11, 2016, the Company sold the principal assets of the gaming products operations and has exited this business. All related historical revenues and expenses for these operations have been reclassified as discontinued operations. The accounting policies of the discontinued operations are consistent with the Company's policies for the accompanying consolidated financial statements.

The following table presents the financial information for each of the Company's continuing operating segments.

| | **Three-Month Period Ended June 30,** | | **Six-Month Period Ended June 30,** | |
|---|---|---|---|---|
| (amounts in thousands) | 2016 (Unaudited) | 2015 (Unaudited) | 2016 (Unaudited) | 2015 (Unaudited) |
| Revenues: | | | | |
| Gaming operations | $ 2,275 | $ 4,914 | $ 6,125 | $ 8,924 |
| Operating income: | | | | |
| Gaming operations | $ 1,219 | $ 2,509 | $ 2,695 | $ 4,208 |
| Social gaming platform | (87) | — | (485) | — |
| Corporate and other operating costs and expenses | (1,088) | (1,170) | (2,162) | (2,614) |
| Total operating income | $ 44 | $ 1,339 | $ 48 | $ 1,594 |
| Depreciation and amortization: | | | | |
| Gaming operations | $ 522 | $ 1,465 | $ 1,509 | $ 2,970 |
| Social gaming platform | — | — | — | — |
| Corporate | 19 | 24 | 43 | 47 |
| Total depreciation and amortization | $ 541 | $ 1,489 | $ 1,552 | $ 3,017 |

Geographic segment revenues of the Company's continuing operation segments for the three-month and six-month periods ended June 30, 2016 and 2015 consisted of the following:

| | Three-Month Period Ended June 30, | | Six-Month Period Ended June 30, | |
|---|---|---|---|---|
| (amounts in thousands) | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Cambodia | $ 1,648 | $ 4,246 | $ 4,895 | $ 7,570 |
| Philippines | 627 | 668 | 1,230 | 1,354 |
| Total | $ 2,275 | $ 4,914 | $ 6,125 | $ 8,924 |

For the three-month and six-month periods ended June 30, 2016 and 2015, the largest gaming operations customer represented 57% and 76% and 67% and 75%, respectively, of total gaming operations revenue.

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**Note 3. Inventories**

Inventories consisted of the following:

| (amounts in thousands) | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| Raw materials (1) | $ — | $ 1,742 |
| Work-in-process | — | 80 |
| Finished goods (2) | — | 443 |
| Spare parts | 99 | 113 |
| Total | $ 99 | $ 2,378 |

(1) Raw materials decreased from December 31, 2015 to June 30, 2016 due to Company's sale of its gaming products operations assets on May 11, 2016, which included raw materials.

(2) Finished goods decreased from December 31, 2015 to June 30, 2016 due to the delivery of all outstanding orders for the gaming products division in the six-month periods ended June 30, 2016.

**Note 4. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consisted of the following:

| (amounts in thousands) | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| Prepayments to suppliers | $ 132 | $ 75 |
| Prepaid insurances | 106 | 220 |
| Total | $ 238 | $ 295 |

**Note 5. Receivables**

Accounts and other receivables consisted of the following:

| (amounts in thousands) | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|

| | | |
|---|---|---|
| Trade receivables | $ 848 | $ 724 |
| Other receivables (1) | 1,565 | 78 |
| | 2,413 | 802 |
| Less: allowance for doubtful accounts | — | — |
| Net | $ 2,413 | $ 802 |

(1) Other receivables as of June 30, 2016 included approximately $1.5 million in payments due within one year from the sale of its gaming products operations assets on May 11, 2016. The non-current balance of the future payments receivable is included in Prepaids, Deposits and Other Assets. See Note 9.

**Note 6. Gaming Equipment**

Gaming equipment is stated at cost. The major categories of gaming equipment and accumulated depreciation consisted of the following:

| (amounts in thousands) | Useful Life (years) | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|---|
| EGMs | 3-5 | $ 16,190 | $ 16,215 |
| Systems | 5 | 1,340 | 1,335 |
| | | 17,530 | 17,550 |
| Less: accumulated depreciation | | (15,255) | (14,565) |
| Net | | $ 2,275 | $ 2,985 |

Depreciation expenses of gaming equipment of approximately $335,000 and $620,000 and $760,000 and $1.3 million were included in cost of gaming operations in the consolidated statements of comprehensive loss/income for the three-month and six-month periods ended June 30, 2016 and 2015, respectively.

**Note 7. Property and Equipment**

Property and equipment are stated at cost. The major categories of property and equipment and accumulated depreciation consisted of the following:

| **(amounts in thousands)** | **Useful Life (years)** | **June 30, 2016 (Unaudited)** | **December 31, 2015** |
|---|---|---|---|
| Equipment, vehicles, furniture and fixtures (1) | 3-10 | $ 907 | $ 6,290 |
| Land and building | 5 | 1,506 | 1,506 |
| Leasehold improvements (2) | 1-6 | 149 | 1,400 |
| | | 2,562 | 9,196 |
| Less: accumulated depreciation | | (1,244) | (3,277) |
| Net | | $ 1,318 | $ 5,919 |

(1) Equipment, vehicles, furniture and fixtures decreased from December 31, 2015 to June 30, 2016 due to the sale of the principal assets of the gaming products operations on May 11, 2016 and the write-down of the unsold gaming products assets, including office equipment and machinery that could not be utilized in the Company's other operations as of June 30, 2016.

(2) Leasehold improvements decreased from December 31, 2015 to June 30, 2016 due to the write-down of leasehold improvements as of June 30, 2016 related to the discontinued gaming products operations.

Depreciation expenses of property and equipment of approximately $57,000 and $162,000 and $114,000 and $321,000 were included in cost of gaming operations in the consolidated statements of comprehensive loss/income for the three-month and six-month periods ended June 30, 2016 and 2015, respectively.

**Note 8. Goodwill and Intangible Assets, including Casino Contracts**

Goodwill and intangible assets are stated at cost. The major categories of goodwill and intangible assets and accumulated amortization consisted of the following:

| (amounts in thousands) | Useful Life (years) | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|---|
| Gaming operation agreement | 4-5 | $ 1,166 | $ 1,166 |
| Less: accumulated amortization | | (1,166) | (1,070) |
| | | — | 96 |

| | | | |
|---|---|---|---|
| Goodwill | N/A | 334 | 332 |
| Patents | 5-6 | — | 114 |
| Less: accumulated amortization | | — | (104) |
| | | — | 10 |
| Trademarks | 5-9 | — | 26 |
| Less: accumulated amortization | | — | (15) |
| | | — | 11 |
| Technical know-how | 10 | — | 261 |
| Less: accumulated amortization | | — | (94) |
| | | — | 167 |
| Casino contracts | 5-6 | — | 12,637 |
| Less: accumulated amortization | | — | (12,109) |
| | | — | 528 |
| Internal-use software (1) | — | 1,144 | 107 |
| Net carrying value | | $ 1,478 | $ 1,251 |

(1) Internal-use software relates to the development of the social gaming platform.

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Amortization expenses for finite-lived intangible assets of approximately $127,000 and $674,000 and $625,000 and $1.3 million were included in cost of gaming operations in the consolidated statements of comprehensive loss/income for the three-month and six-month periods ended June 30, 2016 and 2015, respectively.

Goodwill movements during the periods consisted of the following:

| (amounts in thousands) | 2016 (Unaudited) | 2015 |
|---|---|---|
| Balance as of January 1 | $ 332 | $ 351 |
| Foreign currency translation adjustment | 2 | (19 ) |
| Balance as of June 30/December 31 | $ 334 | $ 332 |

**Note 9. Prepaids, Deposits and Other Assets**

Prepaids, deposits and other assets consisted of the following:

| (amounts in thousands) | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| Rentals, utilities and other deposits | $ 426 | $ 391 |
| Other receivables (1) | 976 | — |
| Prepaid taxes | 38 | — |
| Prepayments to suppliers | — | 34 |
| Total | $ 1,440 | $ 425 |

(1) Other receivables as of June 30, 2016 included approximately $976,000 in payments due in more than one year from the sale of assets of the gaming products operations. The current balance of the future payments receivable is included in other receivables. See Note 5.

**Note 10. Accrued Expenses**

Accrued expenses consisted of the following:

| (amounts in thousands) | June 30, 2016 | December 31, 2015 |
|---|---|---|

| | | |
|---|---|---|
| | (Unaudited) | |
| Payroll and related costs | $ 161 | $ 626 |
| Professional fees | 545 | 339 |
| Withholding tax expenses | 725 | 549 |
| Other tax expenses | 44 | 44 |
| Other expenses | 90 | 197 |
| Total | $ 1,565 | $ 1,755 |

**Note 11. Other Liabilities**

Other liabilities consisted of the following:

| (amounts in thousands) | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| Other tax liabilities | $ 784 | $ 754 |
| Other | 122 | 126 |
| Total | $ 906 | $ 880 |

**Note 12. Stock-Based Compensation**

The Company effected a 1-for-4 reverse stock split of its common shares as of February 26, 2015. All historical share amounts and share price information presented below have been proportionally adjusted to reflect the impact of this reverse split.

At the annual shareholders meeting held on September 8, 2008, a new stock option plan, the 2008 Stock Incentive Plan, was voted on and became effective on January 1, 2009, which replaced two previous plans, the Amended and Restated 1999 Stock Option Plan and the Amended and Restated 1999 Directors' Stock Option Plan, thereby terminating both of the previous plans on December 31, 2008.

The 2008 Plan allows for incentive awards to eligible recipients consisting of:

- Options to purchase shares of common stock that qualify as incentive stock options within the meaning of the Internal Revenue Code;
- Non-statutory stock options that do not qualify as incentive options;
- Restricted stock awards; and
- Performance stock awards which are subject to future achievement of performance criteria or free of any performance or vesting.

The maximum number of shares reserved for issuance under the 2008 Plan is 1,250,000 shares. The exercise price of options granted under the 2008 Plan shall not be less than 100% of the fair market value of one share of common stock on the date of grant, unless the participant owns more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company, in which case the exercise price shall then be 110% of the fair market value. The outstanding stock options generally vest over three years and have ten-year contractual terms.

In the three-month and six-month periods ended June 30, 2016, there were no grants of stock options or restricted stock awards and there were no exercises of outstanding stock options.

Prior to January 1, 2009, the Company had two stock options plans, the Amended and Restated 1999 Stock Option Plan and the Amended and Restated 1999 Directors' Stock Option Plan, through which 937,500 shares and 18,750 shares were authorized, respectively. Both of these previous plans expired on December 31, 2008. However, options granted under these previous plans that were outstanding as of the date of termination remain outstanding and subject to termination according to their terms.

As of June 30, 2016, stock options for the purchase of 226,252 shares and 3,751 shares of common stock, respectively, were outstanding in relation to the Amended and Restated 1999 Stock Option Plan and the Amended and Restated 1999 Director's Stock Option Plan.

As of June 30, 2016, stock options for the purchase of 536,848 shares of common stock were outstanding under the 2008 Plan.

As of June 30, 2016, stock options for the purchase of 755,601 shares of common stock were exercisable with a weighted average exercise price of $7.91, a weighted average fair value of $3.35 and an aggregate intrinsic value of approximately $36,000. The total fair value of shares vested during the three-month period ended June 30, 2016 was $NIL. As of June 30, 2016, an aggregate of 11,250 options granted under all plans was subject to vesting with a total compensation cost of approximately $4,000. The amount is expected to be recognized over 0.51 years.

On July 18, 2016, Company's shareholders approved a new 2016 Stock Incentive Plan, the 2016 Plan, which amended the 2008 Plan to bring it in alignment with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, to which the Company's equity incentive plans are subject as a result of becoming an indirect majority-owned subsidiary of Melco International Development Limited. The maximum number of shares reserved for issuance under the 2016 Plan is 1,250,000 shares of common stock and the 2016 Plan allows for the grant of incentive stock options, non-statutory stock options, restricted stock awards and performance stock awards. On July 18, 2016, the Company effected a voluntary stock option exchange program for its employees, directors and certain others, which was approved by the Company's stockholders on July 18, 2016. See Note 21.

A summary of all current and expired plans as of June 30, 2016 and changes during the period then ended are presented in the following table:

*Options*

| | **Number of Options** | **Weighted Average Exercise Price** | **Weighted Average Remaining Contractual Life (in years)** | **Aggregate Intrinsic Value (in thousands)** |
|---|---|---|---|---|
| Outstanding as of December 31, 2015 | 767,476 | $ 7.90 | 4.28 | $ 34 |
| Granted | — | — | — | — |
| Exercised | — | — | — | — |
| Forfeited or expired | (625 ) | 48.48 | — | — |
| Outstanding as of June 30, 2016 | 766,851 | 7.86 | 3.79 | 36 |
| Exercisable as of June 30, 2016 | 755,601 | $ 7.91 | 3.73 | $ 36 |

*Restricted Stock*

| | Number of shares | **Weighted Average Fair Value at Grant Date** | **Weighted Average Remaining Contractual Life (in years)** |
|---|---|---|---|
| Unvested balance as of December 31, 2015 | 3,750 | $ 4.84 | 0.41 |

| | | | |
|---|---|---|---|
| Granted | — | — | — |
| Vested | 3,750 | 4.84 | — |
| Unvested balance as of June 30, 2016 | — | $ — | — |

*Recognition and Measurement*

The fair value of each stock-based award to employees and non-employee directors is estimated on the measurement date which generally is the grant date while awards to non-employees and restricted common stock with performance criteria are measured at the earlier of the performance commitment date or the service completion date using the Black-Scholes-Merton option-pricing model. Option valuation models require the input of highly subjective assumptions, and changes in assumptions used can materially affect the fair value estimates. The Company estimates the expected life of the award by taking into consideration the vesting period, contractual term, historical exercise data, expected volatility, blackout periods and other relevant factors. Volatility is estimated by evaluating the Company’s historical volatility data. The risk-free interest rate on the measurement date is based on U.S. Treasury constant maturity rates for a period approximating the expected life of the award. The Company historically has not paid dividends, nor does it expect to pay dividends in the foreseeable future and, therefore, the expected dividend rate is zero.

The following table summarizes the range of assumptions utilized in the Black-Scholes-Merton option-pricing model for the valuation of stock options granted during the six-month periods ended June 30, 2016 and 2015.

| | **Six-Month Period Ended June 30,** | | | |
|---|---|---|---|---|
| | **2016** | | **2015** | |
| **Range of values:** | **Low** | **High** | **Low** | **High** |
| Expected volatility | 81.78% | 90.75% | 72.84% | 80.91% |
| Expected dividends | — | — | — | — |
| Expected term (in years) | 4.78 | 7.11 | 4.78 | 8.11 |
| Risk free rate | 0.98 % | 1.69 % | 1.13 % | 2.02 % |

For stock-based compensation accrued to employees and non-employee directors, the Company recognizes stock-based compensation expenses for all service-based awards with graded vesting schedules on the straight-line basis over the requisite service period for the entire award. Initial accruals of compensation expense are based on the estimated number of shares for which requisite service is expected to be rendered. Estimates are revised if subsequent information indicates that forfeitures will differ from previous estimates, and the cumulative effect on compensation cost of a change in the estimated forfeitures is recognized in the period of the change.

For non-employee awards, the Company remeasures compensation cost each period until the service condition is complete and recognizes compensation cost on the straight-line basis over the requisite service period.

The Company estimates forfeitures and recognizes compensation cost only for those awards expected to vest assuming all awards would vest and reverse recognized compensation cost for forfeited awards when the awards are actually forfeited.

For awards with service conditions and graded vesting that were granted prior to the adoption of ASC 718, the Company estimates the requisite service period and the number of shares expected to vest, and recognizes compensation expense for each tranche on the straight-line basis over the estimated requisite service period.

**Note 13. Related Party Transactions**

Significant revenues, purchases and expenses arising from transactions with related parties consisted of the following:

| (amounts in thousands) | Three-Month Period Ended June 30, 2016 (Unaudited) | 2015 (Unaudited) | Six-Month Period Ended June 30, 2016 (Unaudited) | 2015 (Unaudited) |
|---|---|---|---|---|
| **Related party transactions provided to:** | | | | |
| **Melco Crown (Macau) Limited** | | | | |
| Sales of gaming products | $ — | $ — | $ — | $ 349 |
| **MCE Leisure (Philippines) Corporation** | | | | |
| Sales of gaming products | $ 8 | $ 1,439 | $ 167 | $ 4,331 |
| **Melco Crown Entertainment Limited** | | | | |
| Sales of gaming products | $ — | $ — | $ — | $ 212 |
| **Oriental Regent Limited** | | | | |
| Sales of gaming products | $ 164 | $ 500 | $ 164 | $ 500 |
| **Related party transactions provided by:** | | | | |
| **Melco Services Limited** | | | | |
| Technical services | $ — | $ — | $ 1 | $ 1 |
| Services Agreement | $ 58 | $ — | $ 116 | $ — |
| Other | $ 1 | $ 1 | $ 6 | $ 5 |
| **Aberdeen Restaurant Enterprises Limited** | | | | |
| Other | $ — | $ 1 | $ — | $ 1 |
| **Golden Future (Management Services) Limited** | | | | |
| Other | $ 115 | $ 86 | $ 178 | $ 147 |

Melco Services Limited is a wholly-owned subsidiary of Melco International Development Limited, which owns 64.8% of Entertainment Gaming Asia Inc.

Melco International Development Limited owns 37.9% of Melco Crown Entertainment Limited, which owns 90% of Melco Crown (Macau) Limited and 72.9% of MCE Leisure (Philippines) Corporation.

Golden Future (Management Services) Limited is a wholly-owned subsidiary of Melco Crown (Macau) Limited.

Melco International Development Limited indirectly owns 86.7% of Aberdeen Restaurant Enterprises Limited and 5% of Oriental Regent Limited.

**Note 14. Income Taxes**

The Company recorded income tax expenses of $89,000 and $17,000 and $208,000 and $37,000 for the three-month and six-month periods ended June 30, 2016 and 2015, respectively. The Company's effective income tax rates were 1,186.2% and 1.3% and 286.0% and 2.4% for the three-month and six-month periods ended June 30, 2016 and 2015, respectively. The EGT Cambodia entity is income tax exempt and only pays a fixed monthly tax rather than a tax on income. The change in effective tax rate was mainly due to the inclusion of EGT Cambodia pre-tax income, which is subject to a zero income tax liability, in the overall estimated annual effective tax rate computation.

The fixed obligation tax arrangement is subject to annual renewal and negotiation. The Company is working to renew the fixed obligation tax arrangement for EGT Cambodia for 2016.

The Company is subject to income tax examinations by tax authorities in jurisdictions in which it operates. The Company's 2010 to 2015 United States income tax returns remain open to examination by the Internal Revenue Service. The Company's 2009 to 2013 Australian income tax returns remain open to examination by the Australian Taxation Office. The Company's 2015 Cambodian income tax returns remain open to examination by the General Department of Taxation. The Company's 2013 to 2015 Philippines income tax returns remain open to examination by the Philippines Bureau of Internal Revenue. The Company's 2009 to 2015 Hong Kong income tax returns remain open to examination by the Hong Kong Inland Revenue Department.

**Note 15. Discontinued Operations**

On May 11, 2016, the Company entered into an asset purchase agreement pursuant to which it sold the principal assets dedicated to the design, manufacture and distribution of chips, plaques and layouts for gaming tables to Gaming Partners International Corporation, or GPI. The transaction under the agreement closed on May 11, 2016.

Under the terms of the agreement, the Company sold to GPI certain assets of its gaming products business, including fixed assets, raw materials and inventory and intellectual property, for cash consideration of approximately $5.9 million. The consideration includes a purchase price of approximately $5.4 million and $530,000 for restrictive covenants related to a non-compete arrangement given by the Company and Mr. Clarence Chung. The purchase price will be paid out in installments over a 24-month period after closing, with approximately $3.2 million paid at closing and approximately $1.1 million to be paid on each of the first two anniversaries of the closing. Payment related to the restrictive covenants was paid after closing. GPI also paid to the Company an amount equal to four months' rental for its factory subject to a cap of $260,000 after closing and is expected to pay a fixed sum of $520,000 for costs related to the termination of the gaming products business employees.

In addition, GPI will make earn-out payments to the Company. These earn-out payments include: 3% of net revenue on certain sales to specific Asian-based casinos over the next five years subject to a cap of a total of $500 million of net revenue; and 15% of net revenues on sales to the Company’s related party casinos for an indefinite time period for the first $10 million of net revenue and, in addition, 3% of net revenue from these related party casino sales over the next five years subject to a cap of $30 million of net revenue. The Company shall only be entitled to earn-out payments in excess of $900,000.

The agreement includes customary representations, warranties and covenants by the Company and GPI, including each party’s agreement to indemnify the other against certain claims or losses resulting from certain breaches of representations, warranties or covenants under the agreement and third-party claims arising before and after the close. The asset sale represents our exit from the business of design, manufacture and distribution of chips, plaques and layouts for gaming tables and, as part of the transaction, the Company has agreed with GPI not to engage in the manufacture of gaming chips, plaques, jetons, playing cards and layouts for gaming tables in competition with GPI.

In connection with the close of the transaction under the agreement, the Company’s wholly-owned subsidiary, DPD Limited, formerly known as Dolphin Products Limited, and GPI settled and released each other of all claims relating to the civil actions instituted by GPI against DPD in the High Court of the Hong Kong Special Administrative Region in December 2015.

The following table details selected financial information for the discontinued operations in the consolidated statements of comprehensive loss/income.

| | **Three-Month Periods Ended June 30,** | | **Six-Month Periods Ended June 30,** | |
|---|---|---|---|---|
| (amounts in thousands) | 2016 (Unaudited) | 2015 (Unaudited) | 2016 (Unaudited) | 2015 (Unaudited) |
| Revenues from gaming products | $ 307 | $ 2,723 | $ 1,612 | $ 6,995 |
| Cost of gaming products | (416) | (2,328) | (2,175) | (5,990) |
| Selling, general and administrative expenses | (512) | (186) | (1,430) | (388) |
| Gain/(loss) on disposition of assets | 1,287 | (2) | 1,287 | (2) |
| Impairment of assets (1) | (1,276) | — | (1,276) | — |
| Research and development expenses | (54) | (35) | (105) | (70) |
| Depreciation and amortization | (16) | (19) | (37) | (38) |
| Other (expenses)/income | (6) | 5 | 17 | (17) |
| (Loss)/income from discontinued operations, net of tax | $ (686) | $ 158 | $ (2,107) | $ 490 |

(1)

In the three-month period ended June 30, 2016, the Company recorded a non-cash impairment charge of approximately $1.3 million associated with the write-down of the remaining gaming operations assets, including certain machinery, leasehold improvements and office equipment, which could not be utilized in its other operations.

**Note 16. Commitments and Contingencies**

**Legal Matters**

*Gaming Partners International Corporation Litigation*

On December 21, 2015, Gaming Partners International Corporation, or GPI, commenced a legal action in the High Court of the Hong Kong Special Administrative Region against DPD Limited, formerly known as Dolphin Products Limited, or DPD, the Company's wholly-owned subsidiary.

On May 11, 2016, GPI agreed to irrevocably withdraw, terminate and discontinue the legal action mentioned above. On the same date, the Company agreed to sell substantially all the principal assets of DPD to GPI and to discontinue DPD's business of designing, manufacturing and distributing gaming chips and plaques and distributing third-party table game products.

**Note 17. (Loss)/Earnings Per Share**

Computation of the basic and diluted (loss)/earnings per share from continuing operations consisted of the following:

| | Three-Month Period Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 (Unaudited) | | | 2015 (Unaudited) | | |
| (amounts in thousands, except per share data) | Loss | Number of Shares | Per Share Amount | Income | Number of Shares | Per Share Amount |
| Basic | | | | | | |
| Net (loss)/income attributable to equity shareholders | $(81) | 14,462 | $ (0.01) | $1,303 | 14,458 | $ 0.09 |
| Effect of dilutive securities | | | | | | |
| Dilutive stock options/restricted shares (1) | | — | | | 19 | |
| Diluted | | | | | | |
| Net (loss)/income attributable to equity shareholders plus assumed conversion | $(81) | 14,462 | $ (0.01) | $1,303 | 14,477 | $ 0.09 |

| | Six-Month Period Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 (Unaudited) | | | 2015 (Unaudited) | | |
| (amounts in thousands, except per share data) | Loss | Number of Shares | Per Share Amount | Income | Number of Shares | Per Share Amount |
| Basic | | | | | | |
| Net (loss)/income attributable to equity shareholders | $(135) | 14,461 | $ (0.01) | $1,542 | 14,454 | $ 0.11 |
| Effect of dilutive securities | | | | | | |
| Dilutive stock options/restricted shares (1) | | — | | | 20 | |
| Diluted | | | | | | |
| Net (loss)/income attributable to equity shareholders plus assumed conversion | $(135) | 14,461 | $ (0.01) | $1,542 | 14,474 | $ 0.11 |

(1) There were no differences in diluted loss per share from basic loss per share as the assumed exercise of common stock equivalents would have an anti-dilutive effect due to losses for the three-month and six-month periods ended June 30, 2016.

| Three-Month Period Ended June 30, | Six-Month Period Ended June 30, |
|---|---|

| | 2016 (Unaudited) | 2015 (Unaudited) | 2016 (Unaudited) | 2015 (Unaudited) |
|---|---|---|---|---|
| Anti-dilutive outstanding stock options excluded from computation of loss/earnings per share | 748,268 | 751,538 | 743,982 | 750,618 |

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**Note 18. Retirement Plan**

The components of accrued retirement benefits consisted of the following:

| (amounts in thousands) | 2016 (Unaudited) | 2015 |
|---|---|---|
| Balance as of January 1 | $ 23 | $ 29 |
| Service cost | — | 8 |
| Interest cost | — | 1 |
| Actuarial gain and others | — | (15) |
| Balance as of June 30/December 31 | $ 23 | $ 23 |

**Note 19. Asset Retirement Obligations**

Reconciliations of the carrying amounts of the Company's asset retirement obligations are as follows:

| (amounts in thousands) | 2016 (Unaudited) | 2015 |
|---|---|---|
| Balance as of January 1 | $ 99 | $ 92 |
| Accretion expense | — | 7 |
| Balance as of June 30/December 31 | $ 99 | $ 99 |

**Note 20. Accumulated Other Comprehensive Income**

The accumulated balances in respect of other comprehensive income consisted of the following:

| (amounts in thousands) | Defined Benefit Pension Plan | Foreign Currency Translation | Accumulated Other Comprehensive Income |
|---|---|---|---|
| Balances as of January 1, 2015 | $ 87 | $ 666 | $ 753 |
| Current period other comprehensive income/(loss) | 3 | (47) | (44) |
| Balances as of December 31, 2015 | 90 | 619 | 709 |
| Current period other comprehensive loss | — | (3) | (3) |
| Balances as of June 30, 2016 (Unaudited) | $ 90 | $ 616 | $ 706 |

**Note 21. Subsequent Events**

***Voluntary Stock Option Exchange***

On April 29, 2016, the Board of Directors of the Company approved a voluntary stock option exchange program for its employees, directors and certain others, or the Participants. The stock option exchange program was effected pursuant to shareholder approval of an Amended and Restated Stock Incentive Plan, the 2016 Plan, which amended the Company’s 2008 Stock Incentive Plan, the 2008 Plan, to bring it in alignment with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, to which the Company’s equity incentive plans are subject as a result of becoming an indirect majority-owned subsidiary of Melco International Development Limited. On July 18, 2016, both the 2016 Plan and the stock option exchange program were approved by the stockholders of the Company.

Under the terms of the stock option exchange program, the Participants had the opportunity to cancel their existing underwater outstanding stock options (i.e., options with exercise prices that are higher than the current market trading price of the Company’s common stock) in exchange for a replacement option grant for an equal number of shares. The replacement options have an exercise price of $1.94, which is based on the higher of: (i) 100% of the fair market value of the Company’s common stock on the Board approval date and (ii) 100% of the average fair market value of one share of the Company’s common stock for the five business days immediately preceding the Board approval date.

The replacement options have a ten-year term from the Board approval date and are subject to a new vesting schedule. They will vest over three years, vesting 50% on the first anniversary and 25% on each of the second and third anniversaries of the Board approval date, subject to the Participants remaining continuously in service with the Company, except in the case of replacement options issued to our non-employee directors which will continue to vest after the termination of their service to the Company.

As of June 30, 2016, options to purchase 766,851 shares of the Company’s common stock were outstanding under the 2008 Plan and other stock incentive plans. Options to purchase 484,781 of these shares, or approximately 3% of total shares outstanding, were eligible and exchanged in this program. The number of shares subject to outstanding options did not change as a result of this option exchange.

The exchange program was structured to comply with ASC 718 *Compensation-Stock Compensation*. As a result of the option exchange, the Company expects to incur non-cash compensation expense attributable to the incremental fair value of the replacement options granted to the Participants, measured as of the date such awards were granted. The incremental compensation expense associated with the replacement options will be recognized over the expected life of the replacement options.

***Termination of Material Agreement and EGM Dispositions***

On July 6, 2016, the Lease of Machines Agreement dated February 29, 2016 between the Company and NagaWorld Limited, or NagaWorld, was terminated and the Company ceased leasing electronic gaming machines (EGMs) to NagaWorld effective June 30, 2016. At the same time, the Company agreed to sell to a third-party in Cambodia all of its EGMs placed in NagaWorld for $2.5 million. The purchase price was payable by the purchaser in full in cash on completion of the sale, which occurred on July 6, 2016. Under the Lease of Machines Agreement with NagaWorld, which commenced March 1, 2016, the Company had leased to NagaWorld on an ongoing basis 670 EGM seats and related equipment for a fixed fee per machine seat per day payable monthly. Prior to this, the Company had leased EGMs to NagaWorld on a participation, or revenue-sharing basis from January 2009 until the most recent participation contract’s expiration on February 29, 2016.

On June 30, 2016, the Company's machine leasing agreement with Leisure World VIP Slot Club, or Leisure World, in the Philippines expired and the Company ceased leasing EGMs to Leisure World as of the same date. On July 4, 2016, the Company agreed to sell to Leisure World all of its 154 EGMs placed in their venue for $750,000, of which 70% was paid on July 4, 2016 and the remaining 30% was paid on August 3, 2016. The Company had placed EGMs on a participation basis in Leisure World from June 2009 until June 2016.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

***CAUTIONARY STATEMENT***

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and the related notes thereto contained elsewhere in this report. The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission, or SEC, including our annual report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 30, 2016 and subsequent reports on Form 8-K, which discuss our business in greater detail.

In this report we make, and from time to time we otherwise make, written and oral statements regarding our business and prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends, and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements containing the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimates," "projects," "believes," "expects," "anticipates," "intends," "target," "goal," "plans," "objective," "should" or similar expressions identify forward-looking statem which may appear in documents, reports, filings with the Securities and Exchange Commission, news releases, written or oral presentations made by officers or other representatives made by us to analysts, stockholders, investors, news organizations and others, and discussions with management and other of our representatives. For such statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statement speaks only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Except as required by law, we do not undertake any obligation to update or keep current either (i) any forward-looking statement to reflect events or circumstances arising after the date of such statement, or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement.

There are several important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or results that are reflected from time to time in any forward-looking statement. Some of these important factors, but not necessarily all important factors, are included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and in the section "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 30, 2016.

We own or have rights to certain trademarks that we used in connection with our business or products. In addition, this report also makes reference to trademarks and trade names of other companies.

On February 26, 2015, we effected a 1-for-4 reverse stock split of our common stock and corresponding decrease in the number of authorized shares of common stock. All historical share amounts and share information presented in the financial statements and notes have been proportionally adjusted to reflect the impact of this reverse stock split, including but not limited to basic and diluted weighted-average shares issued and outstanding.

**Overview**

This discussion is intended to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect our financial condition and results of operations as a whole. This discussion should be read in conjunction with our consolidated financial statements and accompanying notes as of and for the three-month and six-month periods ended June 30, 2016 and 2015 included elsewhere in this report.

***General***

We are a gaming company focused on capitalizing on opportunities in growing markets of Asia. Presently, we generate revenue through our electronic gaming machine (EGM) operations in Cambodia and the Philippines. Our consolidated revenue for the three-month and six-month periods ended June 30, 2016 was approximately $2.3 million and $6.1 million, respectively. This compares to consolidated revenue for the three-month and six-month periods ended June 30, 2015 of approximately $4.9 million and $8.9 million, respectively.

This year to date, we have refined our business operations with the sale of certain business assets and the exit of certain operations in an effort to improve our positioning and financial flexibility to pursue new growth opportunities. In May 2016, we sold the principal assets of the gaming products operations, which comprised the manufacture and sale of gaming chips and plaques and the distribution of third-party gaming products mainly in Asia and Australia, and exited this business. The cash consideration was approximately $5.9 million plus the potential for earn-outs on future gaming chip and plaque orders to specified customers and subject to certain restrictions. On June 30, 2016, two of our EGM leasing contracts, NagaWorld in Cambodia and Leisure World VIP Slot Club in the Philippines, were terminated and, immediately following in July 2016, we sold the related gaming machine assets for a combined purchase price of approximately $3.3 million.

In 2015, we commenced operations to develop and publish an online social gaming platform specifically designed for the Pan-Asian market. We intend to commence testing the platform in the third quarter of 2016.

***Gaming Operations***

During the reported periods, our gaming operations, which comprised the leasing of our EGMs on both a fixed lease fee and revenue-sharing basis, were located in two countries, Cambodia and the Philippines, and totaled 1,574 EGM seats in operation in six venues. On June 30, 2016, we had a total of 1,009 EGM seats in operation in three venues in Cambodia and a total of 565 EGM seats in operation in three venues in the Philippines.

However, as of the close of business on June 30, 2016, two of our leasing contracts terminated, as discussed below, and, immediately following in July 2016, we sold all the machines placed in these two venues, which comprised a total of 824 EGM seats.

In Cambodia, our gaming operations have largely been focused on our operations in NagaWorld, a gaming resort and the only licensed full service casino in and around the capital city of Phnom Penh owned by NagaWorld Limited. Pursuant to a machine operation and participation contract in operation between March 1, 2010 and February 29, 2016, we jointly operated with NagaWorld a substantial portion of the gaming machine area in prime casino floor locations and we and NagaWorld split the net win from our 670 EGMs placed in their property and certain operating costs related to marketing and floor staff on a respective basis of 25%/75%. The net win, which represented the monies wagered less payouts to customers, from the 670 EGM seats was settled and our share was distributed to us on a daily basis.

On February 29, 2016, we entered into a machine lease agreement with NagaWorld Limited pursuant to which NagaWorld leased all of our 670 EGM seats and related equipment in their present locations on the NagaWorld casino floor commencing March 1, 2016. We were responsible to pay the withholding tax and provide onsite machine and system maintenance but did not provide any other operational support staff. NagaWorld paid us, on a monthly basis, a fixed fee per machine seat per day. The monthly lease payments per machine seat per day were $22 from March 1 through May 31, 2016, $20 from June 1 through August 31, 2016, and then $18 beginning in September 1, 2016 and thereafter until the contract terminated. The agreement was ongoing in nature and NagaWorld had the option to terminate upon not less than 30 days' prior written notice. However, on July 6, 2016, both we and NagaWorld agreed to terminate the agreement effective June 30, 2016. Also on July 6, 2016, we agreed to sell all 670 EGM seats placed at NagaWorld to a third-party in Cambodia. The NagaWorld operations had been a primary contributor to our gaming operations revenue and cash flow.

Our gaming operations in Cambodia also include Thansur Bokor Highland Resort and Dreamworld Club (Poipet). Thansur Bokor is a casino resort developed by leading Cambodian hotelier, Sokha Hotels and Resorts, in a tourist area of the Kampot Province. Under the original agreement, we and Sokha split the net win and certain operating expenses for the placed EGMs on a respective basis of 27%/73%. In August 2015, we and Sokha amended our agreement and adjusted the number of our EGMs placed in this venue to 71 and the split of net win and certain operating costs to 29%/71%, respectively.

Dreamworld Club (Poipet) is a slot hall located in the established gaming market of Poipet in the Banteay Meanchey Province of Northwestern Cambodia near the Thailand border. As of June 30 2016, we had approximately 270 EGM seats placed in this venue. Dreamworld Club (Poipet) operates under a machine operation and participation agreement with a local partner that owns and operates an existing casino in Poipet. Under the terms of the agreement, the local partner allocated, at no expense to us, part of its land with an area of approximately 16,000 square feet to us to develop and construct, at our own design, budget and cost, the slot venue. We are responsible for all capital expenditures for Dreamworld Club (Poipet) and the placement of EGMs and are the sole operators of this venue. We and the local partner split the net win from all the EGMs placed by us at Dreamworld Club (Poipet) and certain operating costs related to marketing and floor staff on a respective basis of 40%/60%.

In the Philippines, our gaming operations comprised three venues in the greater Manila area during the reported periods. For these three venues, our share of the net win per unit per day ranged from 15% to 35%. Our lease contracts with all three of these venues expired on June 30, 2016. We determined not to renew one contract and, on July 4, 2016, sold all 154 EGM seats placed in this venue to the venue owner. The other two venues remain in operation as we are in the process of renewing these contracts effective as of July 1, 2016. We expect that the initial renewal periods for these venues would be six months and one year, respectively.

***Social Gaming Platform***

In 2015, we commenced operations to develop and publish an online social gaming platform. With an internal team of experienced social gaming professionals, we are creating a free-to-play, mobile, social games designed specifically for the Pan-Asian market. We intend to monetize through the in-game sale of virtual coins that allows players to extend play time or accelerate their progress.

The development of the social gaming application is intended to be fully internally funded. We expect total costs, both expensed and capitalized, of approximately $5 million to $6 million for the development and distribution of the platform in the year ended December 31, 2016. We intend to commence initial testing of the platform in the third quarter of 2016.

***Discontinued Operations***

During the reported periods, we were engaged in the design, manufacture and distribution of gaming chips and plaques from our manufacturing facilities in Hong Kong. Our customer base for the gaming chips and plaques included major casino resorts in Macau, the Philippines and Australia.

In addition, we had four agreements with third-party gaming suppliers to distribute their products, including gaming table layouts, UV lights and kiosks. Typically, we sold these products to our existing gaming chip and plaque customers in various markets in Asia and sales of these products represented a small amount of total gaming products revenue.

On May 11, 2016, we reached a definitive agreement to sell the principal assets of the gaming products operations. See Note 15. We closed the transaction on the same day and we have exited this business. All related historical revenues and expenses from these gaming products operations have been reclassified as discontinued operations.

**Results of Operations for the Three-Month and Six-Month Periods Ended June 30, 2016 and 2015**

The following table summarizes our operating results on a consolidated basis for the three-month and six-month periods ended June 30, 2016 and 2015. All historical revenues and expenses associated with the gaming products business, the assets of which were sold in May 2016, have been reclassified as discontinued operations.

| (amounts in thousands, except per share data) | Three-Month Period Ended June 30, 2016 | 2015 | Six-Month Period Ended June 30, 2016 | 2015 |
|---|---|---|---|---|
| Revenues | $ 2,275 | $ 4,914 | $ 6,125 | $ 8,924 |
| Gross profit | $ 1,198 | $ 2,489 | $ 2,674 | $ 4,184 |
| Gross margin percentage | 53 % | 51 % | 44 % | 47 % |
| Adjusted EBITDA from continuing operations (1) | $ 532 | $ 2,808 | $ 1,620 | $ 4,619 |
| Operating income from continuing operations | $ 44 | $ 1,339 | $ 48 | $ 1,594 |
| Net (loss)/income from continuing operations | $ (81 ) | $ 1,303 | $ (135 ) | $ 1,542 |
| Net (loss)/income | $ (767 ) | $ 1,461 | $ (2,242 ) | $ 2,032 |
| Basic and diluted (loss)/earnings per share from continuing operations | $ (0.01 ) | $ 0.09 | $ (0.01 ) | $ 0.11 |
| Weighted average common shares outstanding | | | | |
| Basic | 14,462 | 14,458 | 14,461 | 14,454 |
| Diluted | 14,462 | 14,477 | 14,461 | 14,474 |

(1) We define "Adjusted EBITDA" as earnings/loss before interest, taxes, depreciation, amortization, stock-based compensation, and other non-cash operating income and expenses. Adjusted EBITDA is presented exclusively as a supplemental disclosure because our management believes that it is widely used to measure the performance, and as a basis for valuation, of gaming companies. Our management uses Adjusted EBITDA as a measure of the operating performance of its segments and to compare the operating performance of its operations with those of its competitors. We also present Adjusted EBITDA because it is used by some investors as a way to measure a company's ability to incur and service debt, make capital expenditures and meet working capital requirements. Gaming companies have historically reported EBITDA as a supplement to financial measures in accordance with generally accepted accounting principles in the United States ("GAAP"). Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of our performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure determined in accordance with GAAP. Unlike net income, Adjusted EBITDA does not include depreciation or interest expense and, therefore, does not reflect current or future capital expenditures or the cost of capital. We compensate for these limitations by using Adjusted EBITDA as only one of several comparative tools, together with GAAP measurements, to assist in the evaluation of operating performance. Such GAAP measurements include operating income, net income, cash flows from operations and cash flow data. We have significant uses of cash flows, including capital expenditures, taxes and other non-recurring charges, which are not reflected in Adjusted EBITDA. Our calculation of Adjusted EBITDA may be different from the calculation methods used by other companies and, therefore, comparability may be limited.

A reconciliation of EBITDA, as adjusted, to the net (loss)/income from continuing operations is provided below.

**Three-Month Period** **Six-Month Period**

| (amounts in thousands) | Ended June 30, 2016 | 2015 | Ended June 30, 2016 | 2015 |
|---|---|---|---|---|
| Net (loss)/income from continuing operations— GAAP basis | $ (81) | $ 1,303 | $ (135) | $ 1,542 |
| Interest expense and finance fees | — | 2 | — | 3 |
| Interest income | (2) | (3) | (5) | (6) |
| Income tax expenses | 89 | 17 | 208 | 37 |
| Depreciation and amortization | 541 | 1,489 | 1,552 | 3,017 |
| Stock-based compensation expenses | 6 | 20 | 21 | 50 |
| Gain on disposition of assets | (21) | (20) | (21) | (24) |
| Adjusted EBITDA from continuing operations | $ 532 | $ 2,808 | $ 1,620 | $ 4,619 |

Total revenue decreased approximately $2.6 million to $2.3 million for the three-month period ended June 30, 2016 compared to approximately $4.9 million in the same period of the prior year primarily as a result of lower revenue from NagaWorld due to the change in lease agreement from a participation to a fixed lease arrangement, as discussed in greater detail below.

Gross profit decreased approximately $1.3 million to $1.2 million for the three-month period ended June 30, 2016 compared to approximately $2.5 million in the prior year period. The decrease was primarily a result of lower revenue partially offset by lower costs under the fixed lease arrangement with NagaWorld and lower depreciation expense as a result of the previous write-down of gaming assets for DreamWorld Poipet as of December 31, 2015.

Operating income from continuing operations decreased approximately $1.3 million to $44,000 for the three-month period ended June 30, 2016 compared to approximately $1.3 million in the prior year period. The decrease in operating income from continuing operations was primarily a result of the lower gross profit.

Net loss from continuing operations increased approximately $1.4 million to $81,000 for the three-month period ended June 30, 2016 compared to net income from continuing operations of approximately $1.3 million in the prior year period. The increase in net loss from continuing operations was primarily a result of the lower operating income, as explained above.

Net loss decreased approximately $2.2 million to $767,000 for the three-month period ended June 30, 2016 compared to a net income of approximately $1.5 million in the same period of the prior year. The net loss and income for the three-month periods ended June 30, 2016 and 2015 included a net loss of approximately $686,000 and net income of approximately $158,000, respectively, from the discontinued gaming products operations. See Note 15.

Total revenue decreased approximately $2.8 million to $6.1 million for the six-month period ended June 30, 2016 compared to approximately $8.9 million in the same period of the prior year primarily as a result of lower revenue from NagaWorld, as discussed in greater detail below.

Gross profit decreased approximately $1.5 million to $2.7 million for the six-month period ended June 30, 2016 compared to approximately $4.2 million in the prior year period. The decrease was primarily a result of lower revenue partially offset by lower costs under the fixed lease arrangement with NagaWorld and lower depreciation expense as a result of the previous write-down of gaming assets for DreamWorld Poipet as of December 31, 2015.

Operating income from continuing operations decreased approximately $1.5 million to $48,000 for the six-month period ended June 30, 2016 compared to approximately $1.6 million in the prior year period. The decrease in operating income from continuing operations was primarily a result of the lower gross profit.

Net loss from continuing operations increased approximately $1.7 million to $135,000 for the six-month period ended June 30, 2016 compared to net income from continuing operations of approximately $1.5 million in the prior year period. The increase in net loss from continuing operations was primarily a result of the lower operating income, as explained above, and higher income tax expenses.

Net loss increased approximately $4.3 million to $2.2 million for the six-month period ended June 30, 2016 compared to a net income of approximately $2.0 million in the same period of the prior year. The net loss and income for the six-month periods ended June 30, 2016 and 2015 included a net loss of approximately $2.1 million and net income of approximately $490,000, respectively, from discontinued gaming products operations. See Note 15.

**Gaming Operations**

Revenue from gaming operations consisted of leasing EGMs on both a revenue-sharing (participation) and fixed fee basis.

| | Three-Month Period Ended June 30, | | Six-Month Period Ended June 30, | |
|---|---|---|---|---|
| (amounts in thousands, except per unit data) | 2016 | 2015 | 2016 | 2015 |
| Net revenue to the Company | | | | |
| Participation operations | | | | |
| Cambodia | $ 242 | $ 3,992 | $ 2,817 | $ 7,110 |
| Philippines | 617 | 650 | 1,211 | 1,320 |
| Service revenue (1) | 115 | 272 | 339 | 494 |
| Consolidated participation total | $ 974 | $ 4,914 | $ 4,367 | $ 8,924 |
| Fixed fee operations | 1,301 | — | 1,758 | — |
| Consolidated total | $ 2,275 | $ 4,914 | $ 6,125 | $ 8,924 |
| | | | | |
| Average revenue per unit per day | | | | |
| Participation operations | | | | |
| Cambodia | $ 22 | $ 165 | $ 106 | $ 147 |
| Philippines | $ 63 | $ 65 | $ 61 | $ 67 |
| Consolidated participation average | $ 47 | $ 131 | $ 84 | $ 120 |
| Fixed fee operations | $ 21 | $ — | $ 22 | $ — |
| Consolidated total | $ 36 | $ 131 | $ 66 | $ 120 |

| | June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Total EGM seats in operation | | |
| Participation operations | | |
| Cambodia | 339 | 1,018 |
| Philippines | 565 | 540 |
| Consolidated participation total | 904 | 1,558 |
| Fixed fee operations | 670 | — |
| Consolidated total | 1,574 | 1,558 |

(1) Service revenue represents reimbursements of certain expenses for EGM participation operations, which for accounting purposes, are included in the revenue and grossed up in the cost of gaming operations.

Revenue from gaming operations decreased approximately $2.6 million to $2.3 million for the three-month period ended June 30, 2016 compared to approximately $4.9 million in the prior year period. The decrease was primarily due to lower revenue from NagaWorld.

Gaming operations revenue for the three-month periods ended June 30, 2016 and 2015 included approximately $115,000 and $272,000, respectively, in service revenue related to the reimbursement of net shared costs from casino operators for the participation agreements.

Revenue from Cambodia decreased approximately $2.5 million to $1.5 million for the three-month period ended June 30, 2016 compared to approximately $4.0 million in the prior year period. The decline was primarily due to lower revenue from NagaWorld. As described in more detail above, for the three-month period ended June 30, 2016, our operations at NagaWorld operated under the machine operation and participation agreement until its expiration on February 29, 2016 and under the machine lease agreement beginning March 1, 2016. The machine operation and participation agreement provided us with a 25% share of the average daily net win per unit and the machine lease agreement provided us with a fixed daily fee per unit of $22 for the months of March, April and May 2016 and $20 for the month of June 2016.

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Revenue from the Philippines decreased approximately $33,000 to $617,000 for the three-month period ended June 30, 2016 compared to approximately $650,000 in the prior year period. The decrease was due to lower average net win per day per unit primarily as a result of continued competition from major casino resorts in the Manila area. Due to the competitive environment in the Philippines, we are focused on enhancing returns on assets in this market through targeted marketing programs and strategic management of and investment in our machine mix.

Gross profit from gaming operations decreased approximately $1.3 million to $1.2 million for the three-month period ended June 30, 2016 compared to approximately $2.5 million in the prior year period primarily due to the lower revenue partially offset by lower costs under the fixed lease arrangement with NagaWorld and lower depreciation expense as a result of the previous write-down of gaming assets for DreamWorld Poipet as of December 31, 2015. Cost of gaming operations for the three-month period ended June 30, 2016 included approximately $392,000 in depreciation of gaming property and equipment, $94,000 of amortization of casino contracts, $33,000 of amortization of other gaming related intangibles and $558,000 of other operating costs. Cost of gaming operations for the three-month period ended June 30, 2015 included approximately $782,000 in depreciation of gaming property and equipment, $611,000 of amortization of casino contracts, $63,000 of amortization of other gaming related intangibles and $969,000 of other operating costs.

Revenue from gaming operations decreased approximately $2.8 million to $6.1 million during the six-month period ended June 30, 2016 compared to approximately $8.9 million in the prior year period. The decrease was primarily due to lower revenue from NagaWorld.

Gaming operations revenue for the six-month periods ended June 30, 2016 and 2015 included approximately $339,000 and $494,000, respectively, in service revenue related to the reimbursement of net shared costs from casino operators for the participation agreements.

Revenue from Cambodia decreased approximately $2.5 million to $4.6 million for the six-month period ended June 30, 2016 compared to approximately $7.1 million in the prior year period. The decline was primarily due to lower revenue from NagaWorld.

Revenue from the Philippines decreased approximately $109,000 to $1.2 million for the six-month period ended June 30, 2016 compared to approximately $1.3 million in the prior year period. The decrease was due to lower average net win per day per unit primarily as a result of continued competition from major casino resorts in the Manila area.

Gross profit from gaming operations decreased approximately $1.5 million to $2.7 million for the six-month period ended June 30, 2016 compared to approximately $4.2 million in the prior year period primarily due to the lower revenue partially offset by lower costs under the fixed lease arrangement with NagaWorld and lower depreciation expense as a result of the previous write-down of gaming assets for DreamWorld Poipet as of December 31, 2015. Cost of gaming operations for the six-month period ended June 30, 2016 included approximately $874,000 in depreciation of gaming property and equipment, $528,000 of amortization of casino contracts, $96,000 of amortization of other gaming related intangibles and $2.0 million of other operating costs which is included severance costs associated with the termination of the NagaWorld staff upon expiration of the machine operation and participation agreement. Of the total $626,000 in total severance costs, $555,000 was recorded in cost of gaming operations. Cost of gaming operations for the six-month period ended June 30, 2015 included approximately $1.6 million in depreciation of gaming property and equipment, $1.2 million of amortization of casino contracts, $126,000 of amortization of other gaming related intangibles and $1.8 million of other operating costs.

As of June 30, 2016, we had a total of 1,859 EGM seats of which 285 were held in inventory and 1,574 were in operation. Of the 1,574 EGM seats in operation, 339 were in operation in two venues under participation agreements and 670 were in operations under a fixed fee agreement in Cambodia, and 565 were in operation under participation agreements in three venues in the Philippines.

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| (amounts in thousands, except per unit data) | Units | Carrying Value | Units | Carrying Value |
| EGMs and systems used in operations (1) | 1,574 | $ 2,221 | 1,543 | $ 2,871 |
| EGMs and systems held for future use | 285 | 54 | 308 | 114 |
| Total EGMs and systems | 1,859 | $ 2,275 | 1,851 | $ 2,985 |

(1) EGMs and systems used in operations as of June 30, 2016 and December 31, 2015 included 32 and 31 leased EGM seats, respectively, and, therefore, their carrying values were not included.

As described above, as of the close of business on June 30, 2016, two of our leasing contracts terminated and machines from those venues are included in the June 30, 2016 machine figures above. Immediately following in July 2016, we sold all the machines placed in these two venues and, as a result, our machine base was reduced by 824 seats.

As part of our ongoing efforts to maximize returns and minimize capital expenditures for the gaming operations, we seek to strategically manage our existing EGM base through the redeployment of gaming assets between venues, when appropriate.

**Social Gaming Platform**

In 2015, we began development of an online social gaming platform. We intend to commence testing of the platform in the third quarter of 2016.

We capitalize costs for the development of the platform and the internal-use software when the planning stage efforts are successfully completed, management has committed project resourcing and it is probable that the project will be completed and the software will be used as intended. Such costs are amortized on the straight-line basis over the estimated useful lives of the related assets. Costs incurred prior to meeting these criteria are expensed to research and development expenses as incurred.

For the three-month and six-month periods ended June 30, 2016, we incurred approximately $87,000 and $485,000 in expenses for research and development activities and approximately $702,000 and $1.0 million in capitalized costs related to the development of the social gaming platform, respectively. There were no research and development expenses or capitalized costs related to the development of the social gaming platform for the three-month and six-month periods ended June 30, 2015.

**Operating Expenses**

The schedule of expenses on a consolidated basis of continuing operations consisted of the following:

| | **Three-Month Periods Ended June 30,** | | **Six-Month Periods Ended June 30,** | |
|---|---|---|---|---|
| (amounts in thousands) | 2016 | 2015 | 2016 | 2015 |
| Selling, general and administrative expenses | $ 1,060 | $ 1,117 | $ 2,087 | $ 2,496 |
| Stock-based compensation expenses | 6 | 20 | 21 | 50 |
| Gain on disposition of assets | (21) | (20) | (21) | (24) |
| Research and development expenses | 87 | — | 485 | — |
| Depreciation and amortization | 22 | 33 | 54 | 68 |
| Total | $ 1,154 | $ 1,150 | $ 2,626 | $ 2,590 |

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses decreased approximately $57,000 to $1.1 million for the three-month period ended June 30, 2016 compared to approximately $1.1 million in the prior year period. Salaries and wages decreased approximately $220,000 due to lower corporate and gaming operations headcount. In addition, rent, utilities, printing expenses and other expenses decreased approximately $14,000 primarily due to various cost reduction initiatives. The decreases were partially offset by increases in other tax expenses of approximately $95,000 mainly as result of a 10% withholding tax for the NagaWorld fixed machine lease income, higher consulting and legal expenses of approximately $70,000 primarily due to professional advisors' fees and higher office expenses of approximately $12,000 due to management and administrative service fees paid to Melco Services Limited.

Selling, general and administrative expenses decreased approximately $409,000 to $2.1 million for the six-month period ended June 30, 2016 compared to approximately $2.5 million in the prior year period. Salaries and wages decreased by approximately $325,000 due to lower corporate and gaming operations headcount. Consulting and legal expenses decreased approximately $268,000 primarily due to lower legal fees and professional advisors' fees. In addition, rent, utilities, printing expenses and other expenses decreased approximately $20,000 primarily due to various cost reduction initiatives. The decreases were partially offset by increases in other tax expenses of approximately $140,000 mainly as result of a 10% withholding tax for the NagaWorld fixed machine lease income and higher office expenses of approximately $64,000 due to management and administrative service fees paid to Melco Services Limited.

**Stock-Based Compensation Expenses**

Stock-based compensation expenses decreased approximately $14,000 to $6,000 for the three-month period ended June 30, 2016 compared to approximately $20,000 in the prior year period. Stock-based compensation expenses decreased approximately $29,000 to $21,000 for the six-month period ended June 30, 2016 compared to approximately $50,000 in the prior year period. The decreases were primarily due to no new option grants issued and a decrease in average stock prices during the three-month and six-month periods ended June 30, 2016 compared to the prior year periods.

**Research and Development Expenses**

Research and development expenses were approximately $87,000 and $485,000 for the three-month and six-month periods ended June 30, 2016, respectively, due to the development of the new social gaming platform. There were no research and development expenses for the three-month and six-month periods ended June 30, 2015.

**Depreciation and Amortization Expenses**

Depreciation and amortization expenses decreased approximately $11,000 to $22,000 for the three-month period ended June 30, 2016 compared to approximately $33,000 in the prior year period as certain systems and computers became fully depreciated in the three-month period ended June 30, 2016.

Depreciation and amortization expenses decreased approximately $14,000 to $54,000 for six-month period ended June 30, 2016 compared to approximately $68,000 in the prior year period due to the same reasons stated above.

**Other (Expenses)/Income**

Other expenses increased approximately $17,000 to $36,000 for the three-month period ended June 30, 2016 compared to approximately $19,000 in the prior year period. The increase in other expenses was primarily due to an increase in foreign currency losses compared to the prior year period mainly as a result of the settlement of U.S. dollar denominated payables for the Philippines operations with an appreciated U.S. dollar compared to the prior year period.

Other income increased approximately $40,000 to $25,000 for the six-month period ended June 30, 2016 compared to expenses of approximately $15,000 in the prior year period. The increase in other income was primarily due to foreign currency gains compared to losses in the prior year period mainly as a result of the settlement of U.S. dollar denominated payables for the Philippines operations with a depreciated U.S. dollar compared to the prior year period.

**Income Tax Provisions**

Effective tax rates for the three-month and six-month periods ended June 30, 2016 and 2015 were approximately 1,186.2% and 1.3% and 286.0% and 2.4%, respectively. The change in effective tax rate was mainly due to the inclusion of EGT Cambodia pre-tax income, which is subject to a zero income tax liability, in the overall estimated annual effective tax rate computation. We continue to review the treatment of tax losses and future income generated by our foreign subsidiaries to minimize taxation costs.

**FINANCIAL CONDITION**

**Liquidity and Capital Resources**

As of June 30, 2016, we had total cash and cash equivalents of approximately $33.0 million and working capital of approximately $33.5 million. Our cash and working capital during the six-month period ended June 30, 2016 was positively impacted by cash flow from the disposal of the principal assets of the gaming products division but was negatively impacted by an increase in use of working capital for and investments in the development of the social gaming platform.

Our cash flow for the second half of the year ended December 31, 2016 is expected to be negatively impacted by: the termination of two EGM leasing contracts on June 30, 2016, which includes NagaWorld; estimated total costs, both expensed and capitalized, of $3.5 million to $4.5 million related to the development of the social gaming operations; and, the sale of the gaming operations' assets on May 11, 2016. However, our cash position for the second half of the year ended December 31, 2016 will benefit from the receipt of a total of approximately $3.8 million related to the sale of the gaming products assets and the sale of EGMs from the terminated leasing contracts mentioned above. This includes payments of $520,000 for the reimbursement of severance costs related to the termination of gaming products employees and a $3.3 million for the sale of the EGMs.

We are seeking new projects to replace the lost cash flow from the gaming operations and two terminated EGM contracts. Presently, we are actively pursuing projects, which would be in new businesses for the Company. However, there is no guarantee we will be successful in these efforts.

We presently expect that our capital expenditures for the remainder of 2016 will be approximately $300,000 to $500,000, which primarily includes capitalized costs associated with the development of the social gaming platform.

This excludes the costs and expenses of any new projects.

We anticipate our available working capital, along with cash expected to be generated from operating activities, will allow us to meet our capital expenditure needs through the remainder of 2016, excluding the costs and expenses of any new projects.

However, as noted above, we continue to pursue new projects. While there is no guarantee we will be successful in securing new projects, if we were to secure new projects our capital expenditures through the remainder of 2016 would increase beyond the amounts discussed above. Where possible, we intend to fund our new projects from our cash flow from operating activities and cash on hand. Further, we will seek to structure the development of these projects in phases to better control and pace the related capital expenditures. Nonetheless, we may endeavor to obtain additional required capital from various financing sources including commercial debt financing and the sale of our debt or equity securities should the need arise. However, there are no commitments or arrangements in place as of the date of this report for receipt of additional capital and there are no assurances we will be able to acquire additional capital if, and when, needed on commercially reasonable terms or at all.

**Cash Flow Summary**

| | **Six-Month Period Ended June 30,** | |
|---|---|---|
| (amount in thousands) | 2016 | 2015 |
| Cash provided by/(used in): | | |
| Operations | $ (526 ) | $ 8,535 |
| Investing | 2,879 | (1,212 ) |
| Financing | — | — |
| Effect of exchange rate change in cash | 1 | 14 |
| | $ 2,354 | $ 7,337 |

***Operations***

Cash used in operating activities was approximately $526,000 for the six-month period ended June 30, 2016 compared to cash provided by operating activities of approximately $8.5 million in the prior year period. For the six-month period ended June 30, 2016, cash used in operating activities primarily resulted from a decrease of operating income from the gaming operations division and an increase in the use of funds for working capital and expenses related to the development of the social gaming platform. For the six-month period ended June 30, 2015, cash provided by operating activities primarily resulted from operating income from both the gaming operations and gaming products divisions and a decrease in the use of funds for working capital.

***Investing***

Cash provided by investing activities was approximately $2.9 million for the six-month period ended June 30, 2016 compared to approximately $1.2 million cash used in investing activities in the same period of the prior year. The net increase in cash provided by investing activities was mainly a result of the proceeds from disposal of the gaming products division and fewer purchases of EGMs for the gaming operations division.

***Financing***

Cash used in financing activities was $NIL for the six-month periods ended June 30, 2016 and 2015.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States. Accordingly, we are required to make estimates incorporating judgments and assumptions we believe are reasonable based on our historical experience, contract terms, observance of known trends in our Company and the industry as a whole, as well as information available from other outside sources. Our estimates affect amounts recorded in the financial statements and actual results may differ from initial estimates.

We consider the following accounting estimates to be the most critical to fully understanding and evaluating our reported financial results. They require us to make subjective or complex judgments about matters that are inherently uncertain or variable. Senior management has discussed the development, selection and disclosure of the following accounting estimates, particularly those considered most sensitive to changes from external factors, with the audit committee of our board of directors.

**Allowance for Doubtful Accounts Receivable**

As of June 30, 2016, we had net accounts receivable of approximately $848,000, representing 2% of total assets. We specifically analyze the collectability of each account based upon the age of the account, the customer's financial condition, collection history and any other known information, and we provide specific allowances for aged account balances. Revenue is recognized on an accrual basis for customers with doubtful accounts receivable. Our allowance for doubtful accounts receivable was $NIL as of June 30, 2016 and December 31, 2015.

**Inventory**

The determination of obsolete or excess inventory requires us to estimate the future demand for our products within specific time horizons, generally one year or less. If we experience a significant unexpected decrease in demand for our products or a higher occurrence of inventory obsolescence because of changes in technology or customer requirements, we could be required to increase our inventory provisions. Our inventory provision was $NIL for the three-month and six-month periods ended June 30, 2016 and 2015.

**Gaming Equipment and Property and Equipment**

As of June 30, 2016, we had gaming equipment and property and equipment of approximately $3.6 million, representing 8% of our total assets. We depreciate gaming equipment and property and equipment on the straight-line basis over their estimated useful lives. The estimated useful lives are based on the nature of the assets as well as current operating strategies and legal considerations such as contractual life. Future events, such as property expansions, property developments, trends in market demand, new competition, or technology obsolescence, could result in a change in the manner in which we use certain assets and require changes in the estimated useful lives of such assets.

For assets to be held and used, they are reviewed for impairment whenever indicators of impairment exist. If an indicator of impairment exists, we first group assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (the “asset group”). Secondly, we estimate the undiscounted future cash flows that are directly associated with and expected to arise from the use and eventual disposition of such asset group. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow model.

To estimate the undiscounted cash flows of an asset group, we consider potential cash flow scenarios based on management estimates given current conditions. Determining the recoverability of our asset groups is judgmental in nature and requires the use of significant estimates and assumptions, including estimated cash flows, growth rates and future market conditions, among others. Future changes to our estimates and assumptions based upon changes in macro-economic factors, regulatory environments, operating results or management’s intentions may result in future changes to the recoverability of our asset group.

**Goodwill and Intangible Assets**

As of June 30, 2016, we had intangible assets, including goodwill of approximately $1.5 million, representing 3% of our total assets. Goodwill is not subject to amortization and is tested for impairment and recoverability annually or more frequently if events or circumstances indicate that the assets might be impaired. The impairment test consists of a comparison of its fair value with its carrying amount. If the carrying amount is not recoverable and exceeds its fair value, an impairment provision will be recognized in an amount equal to that excess. If its carrying amount does not exceed the fair value, no impairment is recognized.

Certain costs relating to software developed to solely meet our internal requirements and for which there are no substantive plans to market the software. These costs mainly include payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software projects during the application development stage until the software is substantially complete and ready for its intended use. We also capitalizes certain costs related to the development of the social gaming application for marketing purposes. These costs are capitalized once technological feasibility has been established. Costs incurred prior to the criteria met for capitalization are expensed to research and development expenses as incurred. Our management committed the resources of developing a social gaming application, and it is probable that the social gaming application will be completed and the software will be used as intended. Such capitalized costs are amortized on a straight-line basis over the estimated useful life of the related assets.

Finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives are based on the nature of the assets as well as legal considerations such as contractual life. Future events, such as technology obsolescence could result in a change in the manner in which we use the assets and require a change in the estimated useful lives of such assets. Finite-lived intangible assets are tested for impairment and recoverability when there are indicators of impairment. The impairment test consists of a comparison of its fair value with its carrying amount. If the carrying amount is not recoverable and exceeds its fair value, an impairment provision will be recognized in an amount equal to that excess. If its carrying amount does not exceed the fair value, no impairment is recognized.

**Stock-Based Compensation**

We apply ASC 718, *Compensation-Stock Compensation*, to account for stock-based compensation. Under the fair value recognition provisions of ASC 718, we recognize stock-based compensation expenses for all service-based awards to employees and non-employee directors with graded vesting schedules on the straight-line basis over the requisite service period for the entire award. Estimates are revised if subsequent information indicates that forfeitures will differ from previous estimates, and the cumulative effect on compensation costs of a change in the estimated forfeitures is recognized in the period of the change. For non-employee awards, we remeasure compensation costs each period until the service condition is complete and recognize compensation costs on the straight-line basis over the requisite service period. Option valuation models require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the fair value estimate. Judgment is required in estimating stock price volatility, forfeiture rates, expected dividends, and expected terms that options remain outstanding. For restricted stock awards with performance conditions, we evaluate if performance conditions are probable in each reporting period. The compensation expense of restricted awards is recognized ratably over the implicit service period if achieving performance conditions is probable. Initial accruals of compensation expense are based on the estimated number of shares for which requisite service is expected to be rendered.

Stock-based compensation expenses totaled approximately $6,000 and $20,000 and $21,000 and $50,000 for the three-month and six-month periods ended June 30, 2016 and 2015, respectively, in the accompanying consolidated statements of comprehensive loss/income.

**Income Taxes**

We are subject to income taxes in the U.S. (including federal and state) and several foreign jurisdictions in which we operate. We record income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and attributable to operating loss and tax credit carryforwards. Accounting standards regarding income taxes requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance, if based on the available evidence, it is “more-likely-than-not” that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed at each reporting period based on a “more-likely-than-not” realization threshold. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards not expiring, and implementation of tax planning strategies.

We recorded a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized. Management will reassess the realization of deferred tax assets based on the applicable accounting standards for income taxes each reporting period and consider the scheduled reversal of deferred tax liabilities, sources of taxable income and tax planning strategies. To the extent that the financial results of these operations improve and it becomes "more-likely-than-not" that the deferred tax assets are realizable, we will be able to reduce the valuation allowance. For valuation allowance related to deferred tax assets generated prior to Quasi-Reorganization, which was effected on December 31, 2010, reductions in the valuation allowance will be recorded directly in equity.

Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions for which the tax treatment is uncertain. Accounting standards regarding uncertainty in income taxes provides a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is "more-likely-than-not" that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely, based solely on the technical merits, of being sustained on examinations. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. We recognize interest and penalties, if any, related to unrecognized tax benefits in the provision of income taxes in the statements of comprehensive income.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet financing arrangements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable.

**Item 4. Controls and Procedures**

(a) *Evaluation of Disclosure Controls and Procedures*.

Our management, with the participation of our chief executive officer and chief accounting officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based on this evaluation, management concluded that our disclosure controls and procedures were effective as of June 30, 2016.

(b) *Changes in Internal Control Over Financial Reporting.*

There were no changes in our internal control over financial reporting that occurred during the three-month period ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II — OTHER INFORMATION**

**Item 6. Exhibits**

| **Exhibit No.** | **Description** | **Method of Filing** |
|---|---|---|
| 10.1 | Asset Purchase Agreement dated May 11, 2016 amongst the Registrant, DPD Limited (formerly known as Dolphin Products Limited) and Gaming Partners International Corporation | Filed electronically herewith |
| 10.2+ | Amended and Restated Stock Incentive Plan | Incorporated by reference from the Registrant's Definitive Information Statement on June 28, 2016 |
| 31.1 | Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed electronically herewith |
| 31.2 | Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed electronically herewith |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) | Filed electronically herewith |
| 101.INS | XBRL Instance Document | Filed electronically herewith |
| 101.SCH | XBRL Taxonomy Extension Schema Document | Filed electronically herewith |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | Filed electronically herewith |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | Filed electronically herewith |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | Filed electronically herewith |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | Filed electronically herewith |

+ Indicates management compensatory plan, contract or arrangement

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | | | |
|---|---|---|---|
| | | | **ENTERTAINMENT GAMING ASIA INC.** |
| | | | (Registrant) |
| Date: | August 15, 2016 | By: | /s/ Clarence Chung |
| | | | Clarence Chung |
| | | Its: | President and Chief Executive Officer |
| Date: | August 15, 2016 | By: | /s/ Traci L. Mangini |
| | | | Traci L. Mangini |
| | | Its: | Chief Financial Officer |