

Board Approved: February 23, 2006

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## **GOVERNANCE COMMITTEE CHARTER**

### **PRINCIPLES OF CORPORATE GOVERNANCE**

#### **Purpose of Corporate Governance:**

The governing Board of Directors represents the long-term interests of Shuffle Master stakeholders. The Governance Committee shall serve as the principal body charged with the review, evaluation, and supervision of its board members and top management.

These principles have been adopted by Board resolution as a definitive statement of governance by which the Board will effectively and efficiently manage its affairs. The principles outlined are not intended to be all-inclusive, but rather serve as the template for prudent corporate governance.

#### **Governance Committee:**

The Governance Committee consists of all the Outside Directors. The Chairman of the Board chairs the Committee, except when the Chairman and the CEO are the same person. In such a case, the Board will select an Outside Director to Chair the Committee. The Committee is intended to provide a forum for Outside Directors to address all issues of corporate governance. (See Exhibits 1 and 2 for Skills/Characteristics and Principal Duties of the Chair.)

The principal charter of the Governance Committee shall be to:

- Adopt, regularly monitor, and recommend to the full Board any modifications or new principles of corporate governance which may be necessary.
- Recommend to the Board the need for selection and replacement, if necessary, of the CEO/Chairman and periodically (at least once per year) review the performance of the CEO and of the Board as a whole.
- Act as the Nominating Subcommittee (the Chair of the Governance Committee, plus the Outside Directors) to recommend to the full Board:
  - Criteria for selection and qualifications of new Directors and nominees for vacancies on the Board.
  - Candidates for Board membership and for the positions of CEO, Chairman and Chair of the Governance Committee.
  - Decisions on the resignation of a Director relative to his change of employment or acceptance of other “conflicting” directorship positions.

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- To evaluate annually the performance of fellow Directors and determine whether Director should be invited to stand for re-election. (See Exhibit 3 for Criteria for Evaluation of Individual Director Performance.)
- Establish any special committee, which may be necessary to properly govern ethical, regulatory, legal or other matters, which might arise.
- Review and make recommendations on Board Agendas prior to all meetings of the Board.
- Approve annual Board calendar recommended by the Chairman and CEO.
- Review and determine the philosophy underlying Directors' compensation.
- Review the Compensation Committee's actions in recommending executive compensation and the underlying philosophy for it.

In carrying out all of its duties, the Committee will consult with and solicit the views of the CEO.

#### **Offices of the Chairman and the CEO:**

The Board does not have a firm policy as to whether the position of the Chairman and the position of the CEO should be separate individuals. The Board intends to preserve the freedom to decide and choose what is in the best interest of the Company at any given point in time.

However, the Board does strongly endorse the concept of one of the Outside Directors (Chair of Governance Committee) being in a position of leadership for the rest of the Outside Directors.

#### **Committees – Structure and Procedures:**

The standing committees of the Board shall be:

- Governance and its Nominating Subcommittee
- Audit Committee and Investment Subcommittee
- Compensation Committee
- Compliance Committee
- Strategic Planning Committee (Note: not a “standing” committee).

With the exception of the Compliance Committee, an Outside Director shall chair each Committee. There will be an attempt to rotate Chairs of Committee's every three (3) to four (4) years; however, this principle of rotation should not deprive the Board of expertise that Directors possess.

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## **BOARD COMPOSITION, COMPENSATION, STOCK OWNERSHIP, AND TENURE OF DIRECTORS:**

- Directors who are currently employed by the Company shall be deemed “Inside” Directors (including former employees of the Company). All others shall be deemed “Outside” Directors. Outside Directors will be “independent” (as defined by all applicable rules and regulations).
- The Board will never be made up of a majority of Inside Directors.
- It is the intent of the Board to “ideally” have a Board of no more than five (5) to seven (7) Directors. Term of office for all members: one (1) year, voted each annual proxy. There will be no limit placed on length of Board service or age of Director.
- All Board members will notify Shuffle Master’s Governance Chair of any boards that they intend to join. If the Governance Chair believes that a conflict exists, or time requirements will negatively impact the Board member’s performance on Shuffle Master’s Board, the Governance Committee will recommend, and the full Board shall finally decide if the Board member will be asked to resign from Shuffle Master’s Board, or not join the other board.
- As a guideline, no Board member should serve on more than two (2) other public company Board of Directors.
- Outside Board members will have proven their ability as senior executives, whether in a business, in government service, or in other institutions. Second, Board Members should have time for the job. Third, Board members should be independent of management. The intent is to have a Board that is an effective element of Shuffle Master and appropriate to its needs.
- Board member (Outside) compensation:
  - Fixed annual retainer paid on a quarterly basis.
  - An annual award of stock options or restricted shares, in an amount to be determined by the Compensation Committee, to be awarded as of the day of the Annual Shareholders Meeting.
  - Additional compensation, stock options or restricted shares may be paid to committee chair positions, in an amount to be determined by the Governance Committee.
  - To attract new qualified members to the Shuffle Master Board, an initial grant of stock options greater than the annual grant may be made.
  - No outside Board members shall receive, either directly or indirectly, any fees or other compensation for any other services rendered to the Company.

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- Director Stock Ownership:
  - Each Director must own Shuffle Master stock (notwithstanding options) prior to election to the Board.
  - Directors are strongly encouraged to own a minimum of stock in an amount equal \$150,000.
  - Such holdings should be considered long-term investments and be achieved within five (5) years of joining the Board. Trading in the Company’s stock is discouraged.
  - Directors are strongly encouraged to utilize a 10(b)5-1 sales plan to exercise options and sell stock.
  - Directors leaving the Board are strongly encouraged to utilize a 10(b)5-1 sales plan to exercise options and sell stock during the 60 days following their last day of service.
- An Inside Director shall submit his or her resignation from the Board upon termination of his or her active service as an employee and/or material change in the Director’s suitability to serve as a qualifier of the Company.
- An Outside Director shall tender a written offer to resign from the Board after a material change in that Director’s full-time position or responsibilities, or suitability to serve as a qualifier of the Company.

#### **MAJORITY VOTE:**

In an uncontested election, any nominee for director who receives a greater number of votes “withheld” from his or her election than votes “for” such election (a “majority withheld vote”) shall tender his or her resignation promptly following certification of the shareholder vote. The Governance Committee shall consider the resignation offer and recommend to the Board whether to accept it. The Board will act on the Governance Committee’s recommendation within ninety (90) days following certification of the shareholder vote.

Thereafter, the Board will promptly disclose their decision whether to accept the director’s resignation offer (and the reason for rejecting the resignation offer, if applicable) in a press release to be disseminated in the manner that company press releases are typically distributed.

Any director who tenders his or her resignation pursuant to this provision shall not participate in the Governance Committee’s recommendation or Board action regarding whether to accept the resignation offer.

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However, if each member of a Governance Committee received a majority withheld vote at the same election, then the independent directors who did not receive a majority withheld vote shall appoint a committee amongst themselves to consider the resignation offers and recommend to the Board whether to accept them.

#### **MEETINGS:**

At this time, four (4) to six (6) regular Board meetings are planned each year, with one of those meetings being an extended meeting focusing on long-range strategic planning. The Governance Committee shall determine from time-to-time the appropriate number of meetings.

Officers of the Company may be invited and make presentations to the Board as directed by the CEO and Chairman of the Board.

Prior to a regular Board meeting, with direction from the Chairman of the Board/CEO, and with concurrence of the Governance Committee, an agenda will be developed for the meeting and the agenda and any information or material for review will be sent to the Directors. At the beginning of each fiscal year, the Chairman of Board will propose an annual calendar and dates for the proposed regular Board of Director meetings.

In addition to Board meetings, the Governance Committee will meet a minimum of four times each year, usually in conjunction with a regular Board meeting.

Furthermore, Outside Directors will meet regularly without the presence of management, no less often than every regular Board meeting.

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**EXHIBIT 1**  
**SKILLS/CHARACTERISTICS FOR CHAIR OF**  
**GOVERNANCE COMMITTEE**

The Chair of the Governance Committee must be an Outside Director who possesses the ability to remain independent of, but appropriately supportive of, the management of the Company, and to represent the interests of the other Directors and the Shareholders. In addition, the person should have:

1. The trust and respect of all other Directors, the Chairman and the CEO, and the top management of the Company.
2. Knowledge of the Company, its history, its business and the competitive environment in which it operates.
3. Knowledge of the corporate governance process, and the ability to determine which issues the Board properly should address and which should be delegated to the CEO and the management of the Company.
4. The ability to act as a facilitator of the Board members, to draw out their ideas and to bring the group to a consensus.
5. The ability to provide wise counsel to the Chairman and CEO and other Board members.
6. Familiarity with the gaming regulatory process and provisions of the State, Provincial, Federal and/or Tribal gaming related regulations, statutes, and Tribal/State Compacts in those jurisdictions in which the Company conducts business.

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**EXHIBIT 2  
PRINCIPAL DUTIES OF CHAIR OF  
GOVERNANCE COMMITTEE**

1. Chair all meetings of the Governance Committee of the Board.
2. In collaboration with the Chairman and CEO, and considering any input from other Directors:
  - Recommend committee chairs and members of Board committees to the Governance Committee.
  - Establish the agenda for Governance Committee meetings.
3. Be available to act as the Board link and advisor to the Chairman and CEO and others designated as members of the office of the CEO.
4. Act as the focal point on the Board for:
  - All issues of corporate governance for which the Governance Committee is responsible.
  - Facilitation of communications between the Board and the CEO.
  - Suggestions from Outside Directors, especially on sensitive issues that they feel need to be resolved.
5. Appoint the Nominating Subcommittee of the Governance Committee and chair its meetings.
6. Provide counsel to the other Directors in the performance of their duties.

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**EXHIBIT 3**  
**CRITERIA FOR EVALUATION OF**  
**INDIVIDUAL DIRECTOR PERFORMANCE**

1. **Representation of Shareholders and Other Stakeholders:** Clearly recognizes the role of Directors to represent the interests of Shareholders and other Stakeholders. Understands the difference between function of the Board and that of management.
2. **Judgment and Knowledge:** Demonstrates judgment and knowledge in the ability to assess Company strategy, business plans, management evaluation and other key issues. Sufficiently informed and knowledgeable to contribute effectively to Board's monitoring responsibilities.
3. **Meaningful Participation:** Comfortable being an active, inquiring participant. Participates in Board process in a meaningful way. Has confidence and willingness to express ideas and engage in constructive discussion. Actively participates in decision-making and is willing to make tough decisions. Is diligent and faithful in attending Board and Committee meetings.
4. **Communications:** Communicates freely with other Board members. A good sounding board for other Directors and the CEO. Willing to challenge fellow Directors and CEO. Asks insightful questions and raises thought provoking perspectives. Willing to hold management accountable for performance and results. Mindful not to get overly involved in operational details and the management process. Finds the proper balance between dominating the deliberations and making no contribution at all. Team player; works well with other Directors while not necessarily sharing their view. Listens with an open mind.
5. **Suitability:** Maintains ongoing suitability as an individual key qualifier of the Company, respects gaming agents and representatives, and cooperates with regulatory agencies in promptly responding to requests for information to complete related personal background investigations.
6. **Expertise:** Fulfills specific Board needs. Makes individual expertise available to the Board. Draws on relevant experience in addressing issues facing Company. Willing to respond to appropriate request of CEO outside of Board meetings for advice and support.
7. **Vision and Leadership:** Understands Company's philosophy and strategy. Oriented toward the future, and sensitive to future direction of industry. Fulfills legal and fiduciary responsibilities. Supports the Company's mission and values, and is open, honest and direct. Makes appropriate time commitment for Board service. Has no conflict of interest in serving on Board. Must be able to think through what the top management of the Company should be and should do.

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8. **Professional Status:** Standing and reputation in the business, professional and social communities in which the Director operates. Appropriately represents the Company in all such communities.