

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2019
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 001-38357

PLAYAGS, INC.

(Exact name of registrant as specified in its charter)

Nevada

46-3698600

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

5475 S. Decatur Blvd., Ste #100
Las Vegas, NV 89118

(Address of principal executive offices) (Zip Code)

(702) 722-6700

(Registrant's telephone number, including area code)

Securities registered pursuant to
Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	AGS	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by 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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

As of June 30, 2019, the market value of voting and non-voting common equity held by non-affiliates of the registrant was \$525,837,748⁽¹⁾. Such aggregate market value was computed by reference to the closing price of the common stock as reporting on the New York Stock Exchange on June 28, 2019. As of March 2, 2020, there were 35,544,601 shares of the Registrant's common stock, \$.01 par value per share, outstanding.

(1) For this purpose only, "non-affiliates" excludes directors and executive officers.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements.” Forward-looking statements include any statements that address future results or occurrences. In some cases you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “would,” “should,” “could” or the negatives thereof. Generally, the words “anticipate,” “believe,” “continue,” “expect,” “intend,” “estimate,” “project,” “plan” and similar expressions identify forward-looking statements. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained in this Annual Report on Form 10-K in Item 1. “Business,” Item 1A. “Risk Factors” and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are forward-looking statements. These forward-looking statements include statements that are not historical facts, including statements concerning our possible or assumed future actions and business strategies.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks, uncertainties and other factors, many of which are outside of our control, which could cause our actual results, performance or achievements to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- our ability to effectively compete with numerous domestic and foreign businesses;
- our ability to provide financing on favorable terms compared with our competitors;
- our ability to adapt to and offer products that keep pace with evolving technology related to our businesses;
- our ability to develop, enhance and/or introduce successful gaming concepts and game content, and recognize changes in player and operator preferences in participation games, which may adversely affect demand for our products;
- changing economic conditions and other factors that adversely affect the casino and gaming industry, the play levels of our participation games, product sales and our ability to collect outstanding receivables from our customers;
- the effect of our substantial indebtedness on our ability to raise additional capital to fund our operations, and our ability to react to changes in the economy or our industry and make debt service payments;
- changing regulations, new interpretations of existing laws, or delays in obtaining or maintaining required licenses or approvals, which may affect our ability to operate in existing markets or expand into new jurisdictions;
- our history of operating losses and a significant accumulated deficit;
- changes in the legal and regulatory scheme governing Native American gaming markets, including the ability to enforce contractual rights on Native American land, which could adversely affect revenues;
- our ability to realize satisfactory returns on money lent to new and existing customers to develop or expand gaming facilities or to acquire gaming routes;
- failures in our systems or information technology, which could disrupt our business and adversely impact our results;
- slow growth in the development of new gaming jurisdictions or the number of new casinos, declines in the rate of replacement of existing gaming machines, and ownership changes and consolidation in the casino industry;
- legislation in states and other jurisdictions which may amend or repeal existing gaming legislation;
- intellectual property rights of others, which may prevent us from developing new products and services, entering new markets, or may expose us to liability or costly litigation;
- our ability to complete future acquisitions and integrate those businesses successfully;
- our dependence on the security and integrity of our systems and products;
- the effect of natural events in the locations in which we or our customers, suppliers or regulators operate;
- failure of our suppliers and contract manufacturers to meet our performance and quality standards or requirements could result in additional costs or loss of customers;
- risks related to operations in foreign countries and outside of traditional U.S. jurisdictions;
- foreign currency exchange rate fluctuations;
- quarterly fluctuation of our business;
- risks associated with, or arising out of, environmental, health and safety laws and regulations;
- product defects which could damage our reputation and our results of operations;
- changes to the Class II regulatory scheme;
- state compacts with our existing Native American tribal customers, which may reduce demand for our Class II game and make it difficult to compete against larger companies in the tribal Class III market;
- decreases in our revenue share percentage in our participation agreements with Native American tribal customers;
- adverse local economic, regulatory or licensing changes in Oklahoma or Alabama, the states in which the majority of our revenue has been derived, or material decreases in our revenue with our two largest customers;
- dependence on the protection of our intellectual property and proprietary information and our ability to license intellectual property from third parties;
- failure to attract, retain and motivate key employees;
- certain restrictive open source licenses requiring us to make the source code of some of our products available to third parties and potentially granting third parties certain rights to the software;
- reliance on hardware, software and games licensed from third parties, and on technology provided by third-party vendors;
- dependence on our relationships with service providers;
- maintaining internal controls over financial reporting;
- our ability to maintain current customers on favorable terms;
- our ability to enter new markets and potential new markets;
- our ability to capitalize on the expansion of Internet or other forms of interactive gaming or other trends and changes in the gaming industries;
- our social gaming business is largely dependent upon our relationships with key channels;
- changes in tax regulation and results of tax audits, which could affect results of operations;
- our ability to generate sufficient cash to serve all of our indebtedness in the future; and
- the other factors discussed under Item 1A. “Risk Factors.”

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These forward-looking

statements are made only as of the date of this Annual Report. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments unless required by federal securities law. New factors emerge from time to time, and it is not possible for us to predict all such factors.

PART I

ITEM 1. BUSINESS.

Unless the context indicates otherwise, or unless specifically stated otherwise, references to the “Company”, “PlayAGS”, “AGS”, “we”, “our” and “us” refer to PlayAGS, Inc. and its consolidated subsidiaries.

Overview

We are a Nevada corporation formed and incorporated originally in Delaware in August 2013 and then reincorporated in Nevada in December 2017. We were formed to acquire, through one of our indirect wholly owned subsidiaries, 100% of the equity in AGS Capital, LLC (“AGS Capital”) from AGS Holdings, LLC (“AGS Holdings”). AGS Capital was a supplier of Electronic Gaming Machines (“EGMs”) primarily to Class II Native American gaming jurisdictions.

We are a leading designer and supplier of EGMs and other products and services for the gaming industry. Since 2014, we have expanded our product line-up to include: (i) Class III EGMs for commercial and Native American casinos permitted to operate Class III EGMs, (ii) table game products and (iii) interactive products, all of which we believe provide us with growth opportunities as we expand in markets where we currently have limited or no presence. For the year ended December 31, 2019, 69% of our total revenue was generated through recurring contracted lease agreements whereby we place EGMs and table game products at our customers’ gaming facilities under either a revenue sharing agreement (we receive a percentage of the revenues that these products generate) or fee-per-day agreement (we receive a daily or monthly fixed fee per EGM or table game product), or recurring revenue from our Interactive gaming operations. We operate our business in three distinct segments: EGMs, Table Products and Interactive. Each segment’s activities include the design, development, acquisition, manufacturing, marketing, distribution, installation and servicing of a distinct product line.

Our Operations

We provide customers with EGMs, table products, ancillary table product equipment, systems software, computer hardware, signage and other equipment for operation within their gaming facilities. In return we receive either cash for sold items, or a share of the revenue generated by these products and systems, either as a flat monthly fee or a daily fee. The determination of whether our agreement results in a revenue share, monthly fee, or daily fee arrangement is generally governed by local gaming jurisdictions. For our revenue share arrangements on EGM products, we have historically shared between 15% and 20% of the revenues generated by the EGMs. Under our agreements for EGMs, we participate in selecting the mix of titles, maintain and service the equipment and oversee certain promotional efforts. When sold, we offer the majority of our products with an optional parts and service contract. For Table Products we typically license table games and lease related equipment for which we receive monthly royalty and lease payments. We also lease and sell roulette and baccarat signs as well as our new shuffler, *Dex S*. Our Interactive segment generates revenues from (1) B2C social products where consumers purchase virtual coins used to play social casino games, (2) B2B social products where we obtain a percentage of monthly revenue generated by the white label casino apps that we build and operate for our customers, and (3) real-money gaming (“RMG”) revenues, which are earned primarily based on a percentage of the revenue produced by the games on our platform as well as monthly platform fees and initial integration fees. In support of our business and operations, we employ a professional staff including field service technicians, production, sales, account management, marketing, technology and game development, licensing and compliance and finance.

Our corporate headquarters are located in Las Vegas, Nevada, which serves as the primary location for the executive management and administrative functions such as finance, legal, human resources, licensing and compliance. Our licensing and compliance division oversees the application and renewal of our corporate gaming licenses, findings of suitability for key officers and directors and certification of our gaming equipment and systems for specific jurisdictions as well as coordinating gaming equipment and software shipping and on-site and remote service of our equipment with gaming authorities.

Our field service technicians are responsible for installing, maintaining and servicing our gaming products and systems. Our EGM and Table Products field service operation including our call center, which operates 24 hours a day, seven days a week, is managed out of our Oklahoma facility. We can also access most of our Class II EGMs and systems remotely from approved remote locations to provide software updates and routine maintenance. In addition, our EGM and system production facilities are located in and managed out of Oklahoma City, Oklahoma, Atlanta, Georgia, and Mexico City, Mexico.

Sales, product management and account management are managed through our various locations and are located throughout the jurisdictions in which we do business. Sales and account management oversee the customer relationship at the individual location as well as at the corporate level and are responsible for developing new customer relationships. Account management is in charge of running on-site promotions and corporate sponsorship programs. In addition, our marketing team is in charge of general corporate marketing, including advertisements and participation at industry trade shows.

We employ game developers, software and system programmers, project managers and other development and administrative staff that oversee our internal game development efforts and manage third party relationships. Our EGM technology and game development operates primarily out of our Atlanta, Georgia, and Sydney, Australia locations and to a lesser extent out of our locations in Las Vegas, Nevada, Austin, Texas and most recently, Reno, Nevada. Our Table Products technology and development operates primarily out of our Las Vegas, Nevada location. We have Interactive development teams in Tel Aviv, Israel and, Hinckley, United Kingdom, and independent contractors in Kiev, Ukraine.

Products

We provide our casino customers with high-performing Class II and Class III EGMs for the tribal and commercial gaming markets, more than 40 unique table products offerings, ancillary table products equipment, systems software, computer hardware, signage, and other equipment for operation within gaming facilities such as our newly introduced single deck card shuffler. In our AGS Interactive segment, we offer a vast library of casino-themed social and mobile games, business-to-business social casino solutions available to land-based casino customers, and a real-money gaming platform and library of games for online operators.

EGM Segment

EGMs constitute our largest segment, representing 95% of our revenue for the year ended December 31, 2019. In 2019, we had a library of over 423 proprietary game titles that we delivered on our state-of-the-art EGM cabinets: *Orion Portrait*, *Orion Slant*, *Orion Upright*, *ICON*, and *Big Red*. Our *Orion* line of game cabinets delivers performance, flexibility, and style. We currently offer four *Orion* slot cabinets: *Portrait*, *Slant*, *Upright*, and our recently launched *Rise*. Engineered for multiple configurations, this cabinet family is driven by a common platform, available for Class II and Class III markets, and benefits from easy servicing. The *Orion* family of cabinets will see a new addition in 2020 with the launch of the *Orion Curve* featuring a 49 inch 4K curved monitor.

Our *Orion* platform is driving momentum in Class II, Class III, and newly addressable markets, and is a key driver of our equipment sales business. In 2020, we will launch the *Orion Starwall*, a new merchandising innovation for our premium *Orion Portrait* games. This large format, fully modular free-standing video display combines hundreds of direct view LED lights to attract players and immerse players in game play through a theater-like experience created by game-synchronized motion graphics. We have also developed a Latin-style bingo cabinet, *Alora*, which we use in select international markets, including Mexico, the Philippines, and potentially Brazil. Our cabinets and game titles are consistently named among the top-performing games in the industry.

We design our cabinets with the intention of capturing the attention of players on casino floors, and then entertaining them with our engaging game content, while aiming to maximize operator profits. In total, our global development teams have the capabilities to produce approximately 60 new game titles per year. We believe this strategy of producing diversified content will enable us to maintain and grow our market leadership within our current Class II base, as well as continue our expansion into Class III and international markets.

Below are our significant cabinets:

Premium - Lease Only Cabinets

Orion Starwall – The *Orion Starwall* video display, first introduced at the Global Gaming Expo 2019 and slated to launch in the spring of 2020, is an award-winning merchandising innovation for our premium *Orion Portrait* games. A first-of-its kind, the large format, fully modular free-standing *Starwall* video display combines hundreds of direct view LED tiles to create a seamless video backdrop designed to attract players from across the floor. Fitting securely with banks of premium *Orion Portrait* games, the *Starwall* adds attraction through high-impact motion graphics complementary to the game theme.

Orion Rise – Unveiled at the Global Gaming Expo in 2019, this premium tower platform is the latest addition to our *Orion* family of cabinets and one of the three recurring-revenue-only revenue model cabinets. This dual screen cabinet features a 55 inch 4K top monitor to stand out on casino floors. Available for Class III and Class II markets, the *Orion Rise* offers exclusive titles with high-impact graphics to showcase the cabinet's attention-grabbing form.

Big Red - *Big Red* is a premium cabinet focused on simple, classic spinning-reel gameplay. At 8' tall and 8' wide, its massive size and bright red color commands attention on the casino floor and creates a community-style gaming experience. Currently available with our top-performing game title *Colossal Diamonds*, *Big Red* is engineered for both Class II and Class III jurisdictions. In 2019 and in 2020, the *Big Red Colossal Diamonds* was nominated for an EKG Slot Award for 'Top-Performing Proprietary Branded Game'.

Our Premium titles, offered on our lease-only cabinets, include an assortment of compelling features that maximize the capabilities of the hardware. Our Premium titles include unique and niche titles that provide a distinctive player experience and are targeted at increasing floor space in both existing and new jurisdictions. Top-performing titles include *Colossal Diamonds* and *Colossal Stars*.

Core - For Sale and Lease Cabinets

Orion Portrait - The *Orion Portrait* is the flagship of the *Orion* cabinet family. Full-color LED lights surround the *Orion Portrait's* 42-inch HD LCD touchscreen monitor, capable of changing colors and patterns on each machine or across entire banks of machines in a manner that corresponds to each feature within the game. This cabinet has known continued success with the high-performing game titles such as *Fu Nan Fu Nu* and *Rakin' Bacon!*

Orion Slant –The *Orion Slant* features the same distinctive U-shaped lighting as the *Orion Portrait*. The *Orion Slant* features dual LCD HD monitors, and the latest HD audio for a cinematic surround-sound experience and introduces the *Orion* design language in the previously untapped slant dual-screen cabinet market segment.

Orion Upright - In 2019, we launched the *Orion Upright*, which provides us with a third dual-screen option, a form factor widely represented on casino floors. This new core cabinet features dual 27 inch displays, a 21.5 inch LCD topper, and the *Orion's* signature U-shaped lighting design featuring 420 game-synchronized full color LED lights. Sharing many titles from our *ICON* and *Orion Slant* game library, the *Orion Upright* provides our customers more flexibility to choose the best dual-screen form factor suited to their casino and access to a wide library of themes in both Class II and Class III markets.

ICON – Our classic *ICON* cabinet offers modern design with seamless integration of light and sound, ergonomic features, and stunning visual effects to complement our engaging game content and play mechanics. The *ICON* is equipped with two flush-mounted 23 inch HD LCDs, an integrated sound system, and two subtle light panels surrounding the LCD monitors, synchronized to on-screen events enhancing game features, building anticipation, celebrating big wins, and highlighting bonus events. The *ICON* cabinet has been instrumental since its introduction and has been the single biggest growth driver for our business due to its reliability and deep portfolio of games.

Our Core titles are targeted at maintaining and growing our current installed base. Top-performing core titles include *Fu Nan Fu Nu*, *Rakin' Bacon!* and *Golden Wins*, which are some of the highest-performing games in the market today. We design our Core titles to provide a universal appeal.

Table Products

In addition to our existing portfolio of EGMs, we also offer our customers more than 40 unique table product offerings, including live felt table games, side bet offerings, progressives, card shufflers, signage, and other ancillary table game equipment. Our table products are designed to enhance the table games section of the casino floor (commonly known as “the pit”). Over the past 10 years, there has been a trend of introducing side bets on blackjack tables to increase the game’s overall hold. Our table products segment offers a full suite of side bets and specialty table games that capitalize on this trend, and we believe that this segment will serve as an important growth engine for our company by generating further cross-selling opportunities with our EGM offerings. As of December 31, 2019, we had placed 3,766 table products domestically and internationally. Based on the number of products placed, we believe we are presently a leading supplier of table products to the gaming industry.

Our premium game titles include *Criss Cross Poker*, *Chase The Flush*, *Jackpot Hold'em*, and *3 Card Blitz*, to name a few. This segment of the table product business provides an area for growth and expansion in the marketplace, as the industry’s revenues are currently primarily dominated by a single competitor, and we have recently expanded our sales efforts to cover greater territory. The game mechanics of our proprietary, premium titles take classic public domain games and offer a twist on game play that increases volatility while simultaneously increasing hold for operators. This means players experience larger wins, which keeps them engaged in the games for longer periods of time, and operators have the potential to earn incremental revenue. In August 2019, through the acquisition of In Bet Gaming, Inc. (“In Bet II”), we acquired four proprietary table games – *3 Card Blitz*, *Dragon Poker*, *Double Down Blackjack*, and *Straight to the Flush* to add to our premium game offerings.

Our top-performing side-bet games include *Buster Blackjack*, *War Blackjack*, *In-Bet*, *Push Your Luck*, and *Trifecta Blackjack*.

Bonus Spin Blackjack is a first-of-its kind wheel-based table products progressive side-bet solution that uses built-in, light-up bet sensors, a tablet-style dealer interface, and a progressive engine that is fully customizable. Operators can offer anything from a progressive top prize, a fixed top prize, or an experience-based top prize. Sophisticated 3D graphics and a double-sided display draw players into the game and show prizes, results, and bet limits. By adding *Bonus Spin Blackjack* to any of their table products, operators can instantly be more effective at marketing their games by offering customizable prizes that target specific player segments, resulting in more player excitement, interaction, and a potential increase in revenues and visits. In addition, *Bonus Spin* can be easily added to any of our table products, providing substantial growth opportunities. *Bonus Spin Blackjack* was recognized among the Top 20 Most Innovative Gaming & Technology Products Awards of 2017.

Due to our success with *Bonus Spin Blackjack*, in 2019 we introduced an upgraded table game progressive side bet system called *Bonus Spin Xtreme*, with full launch planned in 2020. This next generation of *Bonus Spin* features three concentric wheels, enabling *Bonus Spin Xtreme* to award all participating players with a community prize, as well as award one player position with an enhanced prize which may be a progressive jackpot. *Bonus Spin Xtreme* can link all table games within a casino and offer a single shared progressive jackpot – a feat which has not previously been accomplished with any product in any casino. In addition to its groundbreaking capability to link all table-game progressives on a casino floor, *Bonus Spin Xtreme* has the ability to provide just one unique progressive jackpot winner for community-style table games like roulette, baccarat, and craps, while enabling all participating players to be rewarded with a community prize.

Another AGS progressive innovation is the *STAX Progressive*, which offers multi-level and must-hit-by progressive jackpots that can be added to basic table games like blackjack, as well as AGS proprietary table games like *Criss Cross Poker* and *Chase the Flush*. This game, with its eye-catching, colorful display advertising the progressive levels, and the opportunity for players to win more, won the top award for table innovation in the 2019 Gaming & Technology Awards and the Top 20 Most Innovative Gaming & Technology Products Awards of 2017. In 2019, AGS introduced *STAX Progressive 2.0*, which added new features in high demand by casino operators including O-WAP functionality with single and multi-site meters. The upgraded *STAX 2.0* graphics feature seasonal themes, winning hands tied to jackpot levels, larger game logos, and scrolling messages at the bottom.

One of the newer areas of our Table Products segment consists of ancillary equipment offerings to table games, such as card shufflers and table signage, which provide casino operators a greater variety of choice in the marketplace. This product segment includes baccarat signage, animated roulette readerboards, and our highly anticipated single-card shuffler, *Dex S*. The *Dex S* shuffler features a streamlined design with fewer moving parts, making it exceptionally functional, economical, and reliable, and it easily fits into existing table cutouts so casino operators can seamlessly install without changing their current layouts or replacing any tables. At the Global Gaming Expo in 2019, we introduced our second shuffler, the *Pax S* single-deck pack shuffler, which we plan to launch in 2020. We believe that the table equipment area of our business holds many opportunities for growth, as the technology currently installed in the signage and readerboard areas are in a replacement cycle.

Interactive

With the acquisition of Gameiom Technologies Limited (formerly known as “Gameiom”, and currently known as “AGS iGaming”), we now offer a B2B platform for content aggregation used by real-money gaming (“RMG”) and sports-betting partners. Our B2B platform, the *AxSys Games Marketplace*, aggregates content from game suppliers and offers online casino operators the convenience to reduce the number of integrations that are needed to supply the online casino. By integrating with us, online casino operators have access to a significant amount of content from numerous game suppliers. AGS iGaming operates in regulated, legal online gaming jurisdictions such as the UK, parts of Europe, and New Jersey.

Our Business-to-Consumer (“B2C”) social casino games include online versions of our popular EGM titles and are accessible to players worldwide on multiple mobile platforms, which we believe establishes brand recognition. Our B2C social casino games operate on a free-to-play model, whereby game players may collect virtual currency or other virtual consumable goods (collectively referred to as “virtual goods” or “virtual currency”) free of charge or the player may purchase additional virtual goods. Our B2C social casino games consist primarily of our mobile app, *Lucky Play Casino*. The app contains numerous AGS game titles available for consumers to play for fun or with virtual currency they purchase in the app.

Other Segment Information

Customers and marketing. We market our products to casinos and other legal gaming establishments around the world with our domestic and international sales force and several domestic and international distributors and/or representatives. We believe the quality and breadth of our customer base is a strong testament to the effectiveness and performance of our product offerings, technological innovation, and customer service. Our customer base includes leading casino operators in leading established gaming markets such as the United States, Canada, Latin America, and

the Philippines. Our customers include large tribal customers like the Chickasaw Nation, the Poarch Band of Creek Indians, and well-known corporate customers such as MGM Resorts, Caesars Entertainment, as well as many other commercial and tribal casinos.

Our products and the locations in which we may sell them are subject to the licensing and product approval requirements by various national, state, provincial, and tribal jurisdictional agencies that regulate gaming around the world. See “Regulation and Licensing” section below. We lease and sell our products, with an emphasis on leasing versus selling. We service the products we lease and offer service packages to customers who purchase products from us.

Product supply. We obtain most of the parts for our products from outside suppliers, including both off-the-shelf items as well as components manufactured to our specifications. We also manufacture parts in-house that are used for product assembly and for servicing existing products. We generally perform warehousing, quality control, final assembly and shipping from our facilities in Atlanta, Mexico City and Oklahoma City, although small inventories are maintained and repairs are performed by our field service employees. We believe that our sources of supply for components and raw materials are adequate and that alternative sources of materials are available.

Manufacturing

We have manufacturing agreements to build our gaming cabinets with multiple manufacturing vendors. We believe we have limited concentration risk with any one of these vendors, because we own the rights to our cabinet designs and thus have the ability to change manufacturers in the event of a dispute. We believe any of these vendors would be able to build our gaming cabinets for titles on any platform. As the supplier base is large, we are able to gain competitive pricing and delivery on any of our cabinets and have limited risk in supply disruptions. Manufacturing commitments are generally based on projected quarterly demand from customers.

Our primary EGM and Table Products production facility is located in Oklahoma City, Oklahoma. Production at this facility includes assembling and refurbishing gaming machines, parts support and purchasing. We also assemble EGMs in our Mexico City, Mexico facility at lower volume to support the Mexican market. System production is based at our Atlanta, Georgia office, where our system design team and our U.S. research and development team are based.

Field service technicians are located in various jurisdictions throughout the United States and Mexico and are dispatched from centralized call centers. They are responsible for installing, maintaining and servicing the electronic gaming machines, table games and systems.

Customers

We believe the quality and breadth of our customer base is a strong testament to the effectiveness and quality of our product offerings, technological innovation and customer service. At the core of our relationship with our customers is our participation model, which aligns our financial incentives with those of our customers through a shared dependence on the games' performance. The combination of our customer-aligned participation model, quality customer service and strong game performance has allowed us to develop long-term relationships with our tribal and commercial casino customers. Our top participation customers have been with us for more than a decade, and we believe that we maintain long-term relationships with key customer decision-makers.

We have historically offered select existing and prospective customers an upfront payment, or placement fee, in exchange for exclusive rights to a percentage of their floor space. To a lesser extent, we have offered financing for casino development and expansion projects. In addition to our long-term relationships and contractual arrangements, the consistent demand for our games from the loyal, repeat players of our games further ensures our strong presence on our customers' casino floors.

Within the Native American tribal market, we provide both Class II and Class III games. We also serve customers in commercial, video lottery terminal, charity bingo and route-based markets.

Oklahoma is our largest market and our EGMs in the state accounted for approximately 24% of our total revenue for the year ended December 31, 2019. Our largest customer is the Chickasaw Nation, a Native American gaming operator in Oklahoma, which accounted for approximately 9% of our total revenue for the year ended December 31, 2019. Alabama is our second largest domestic market and our EGMs in the state accounted for approximately 8% of our total revenue for the year ended December 31, 2019. The Poarch Band of Creek Indians, a Native American gaming operator in Alabama, is our second largest customer and accounted for approximately 8% of our total revenue for the year ended December 31, 2019.

For the year ended December 31, 2019, we did not receive more than 10% of our total revenue from any of our other customers.

Customer Contracts

We derive the majority of our gaming revenues from participation agreements, whereby we place EGMs and systems, along with our proprietary and other licensed game content, at a customer's facility in return for either a share of the revenues that these EGMs and systems generate or a daily fee. For licensed table products and related equipment, we typically receive monthly royalty payments. We measure the performance of our domestic installed base of participation EGMs on the net win per day per machine, often referred to as the win per day, or “WPD”. Under our participation agreements, we earn a percentage of the win per day of our domestic installed base of participation EGMs.

Our standard contracts are no longer than one to three years in duration and may contain auto-renewal provisions for an additional term. Most of our contracts give the customer the ability to cancel the lease, which effectively renders the contract a month-to-month arrangement. Our contracts generally specify the number of EGMs and other equipment to be provided, revenue share, daily fee or other pricing, provisions regarding installation, training, service and removal of the machines, and other terms and conditions standard in the industry. In some circumstances, we enter into trial agreements with customers that provide a free or fee-based trial period, during which such customers may use our EGMs or table products. Each trial agreement lays out the terms of payment should the customer decide to continue using our machines.

The Company enters into development agreements and placement fee agreements with certain customers to secure floor space under lease agreements for its gaming machines. Amounts paid in connection with the development agreements are repaid to the Company in accordance with the terms of the agreement, whereas placements fees are not reimbursed. For development agreements in the form of a loan, interest income is recognized on the repayment of the loan based on the stated rate or, if not stated explicitly in the development agreement, on an imputed interest

rate. If the stated interest rate is deemed to be other than a market rate or zero, a discount is recorded on the loan receivable as a result of the difference between the stated and market rate and a corresponding intangible asset is recorded. These agreements have typically been longer-term contracts, ranging from four to seven years depending on the amount of financing provided, market, and other factors.

We generally make efforts to obtain waivers of sovereign immunity in our contracts with Native American customers. However, we do not always obtain these provisions and when we do, they can be limited in scope. There is no guarantee that we will continue or improve our ability to get this term in future contracts. While we have not had any experience with contract enforceability vis-à-vis our Native American customers, we are cognizant of recent cases involving other parties dealing with waivers of sovereign immunity. Those cases put into question how sovereign immunity may be viewed by courts in the future. In the event that we enter into contracts with Native American customers in the future that do not contain a waiver of sovereign immunity, such contracts may be practically unenforceable.

Our game sale contracts are typical of those in the industry. They specify the general terms and conditions of the sale, equipment and services to be provided, as well as pricing and payment terms. In some cases, we provide the central server that is used to operate the purchased equipment on a lease and charge a fee-per-day based on the number of gaming machines connected to the server.

For our interactive segment, we enter into agreements whereby revenues are generated from (1) B2C social products where customers purchase virtual coins to play social casino games, (2) B2B social products where we obtain a percentage of monthly revenue generated by the white label casino apps that we build and operate for our customers, and (3) B2B RMG revenues which are earned primarily based on a percentage of the revenue produced by the games on our game aggregation platform that we provide to certain online RMG operators as well as monthly platform fees and initial integration fees.

Research and Development

We conduct research and development through an internal team to develop new gaming systems and gaming content. Research and development costs consist primarily of salaries and benefits, travel and expenses and other professional services. As of December 31, 2019, we employ 213 game developers, software and system programmers, project managers and other development and administrative staff that oversee internal game development efforts and manage third party relationships. The technology and game development division for the EGM segment operates primarily out of our Atlanta, Georgia, Austin, Texas, Reno, Nevada and Sydney, Australia locations as well as a studio in Las Vegas, Nevada that primarily supports our Table Products segment. We also have development and support teams for our Interactive segment in Tel Aviv, Israel. Additionally, we hire independent contractors in the Ukraine to support the online operations of AGS iGaming. The Company does not have customer-sponsored research and development costs.

Intellectual Property

We use a combination of internally developed and third-party intellectual property, all of which we believe maintain and enhance our competitive position and protect our products. Such intellectual property includes owned or licensed patents, patent applications, trademarks, and trademark applications in the United States. In addition, we have rights in intellectual property in certain foreign jurisdictions. Some of these rights, however, are shared with other third parties, including in an industry wide manufacturers' patent pool. Additionally, pursuant to our license agreements with third-party game developers, we license and distribute gaming software. We also have pooling arrangements with third parties, whereby all parties to such arrangement are permitted to use certain intellectual property contributed to the pool.

Competition

We encounter competition from other designers, manufacturers and operators of electronic gaming machines, table products, social casino and real-money gaming games. Our competitors range from small, localized companies to large, multi-national corporations, several of which have substantial resources and market share.

Our competitors for the live casino floor gaming machines include, but are not limited to, International Game Technology PLC ("IGT"), Scientific Games Corporation ("Scientific Games"), Aristocrat Technologies Inc. ("Aristocrat"), Everi Holdings Inc. ("Everi"), Konami Co. Ltd. ("Konami"), Ainsworth Game Technology Ltd., and Galaxy Gaming, Inc. Additionally, there are hundreds of non-gaming companies that design and develop social casino games and apps and real-money gaming products and services. Many of our competitors are large, well-established companies with substantially larger operating staffs and greater capital resources and have been engaged in the design, manufacture and operation of gaming products for many years. Some of these companies contain significant intellectual property including patents in gaming technology and hardware design, systems and game play and trademarks. In addition, the larger competitors contain significantly larger content portfolios and content development capability and resources, are licensed in markets throughout the United States, and have international distribution. IGT, Scientific Games, Aristocrat, and Konami all have a presence in the back-office accounting and player tracking business which expands their relationship with casino customers. Aristocrat and Everi are our primary competitors in the Class II market.

To compete effectively, we must, among other things, continue to develop high-performing, innovative games for the Class II and Class III markets, provide excellent service and support to our existing customers, effectively manage our installed base of participation gaming machines, expand our library of proprietary content, develop niche products with strong appeal to both local and next generation players, be first to market in new non-traditional markets, implement effective marketing and sales functions, and offer competitive pricing and terms on our participation and sale agreements.

Seasonality

We experience fluctuations in revenues and cash flows from quarter to quarter, as our operating results have been highest during the first and second quarters and lowest in our third and fourth quarters, primarily due to the seasonality of player demand. These fluctuations, however, do not have a material impact on our revenues and cash flows.

Inflation

Our operations have not been, nor are they expected to be in the future, materially affected by inflation. However, our operational expansion is affected by the cost of hardware components, which are not considered to be inflation sensitive, but rather, sensitive to changes in technology and competition in the hardware markets. In addition, we expect to continue to incur increased legal and other similar costs associated with regulatory compliance requirements and the uncertainties present in the operating environment in which we conduct our business.

Employees

As of December 31, 2019, we had over 762 full-time equivalent employees, with approximately 187 employed internationally and approximately 575 employed domestically.

We are not a party to any collective bargaining agreements in the United States and have not experienced any strikes or work stoppages in the past.

Regulation and Licensing

Licensing and Suitability Determinations

We operate in numerous gaming jurisdictions, and our business operations, which include the manufacture, sale, and distribution, of gaming devices, gaming related equipment, related software and/or the provision of gaming related services, are subject to extensive federal, state, local, tribal and foreign government regulation as applicable in each of the gaming jurisdictions in which we operate. A significant portion of our operations take place at facilities conducting gaming activities on the tribal lands of Native American tribes resulting in our operations being subject to tribal and/or federal and sometimes state regulation depending on the classification of gaming being conducted in each such case as defined in the Indian Gaming Regulatory Act of 1988 ("IGRA"). In states where commercial gaming has been legalized, our operations are conducted subject to the applicable federal, state, and local government regulation.

While the specific regulatory requirements of the various jurisdictions vary, the gaming laws in most jurisdictions require us, each of our subsidiaries engaged in manufacturing, selling and distributing gaming products and services, our directors, officers and employees and, in some cases, certain entities or individuals who hold some level of beneficial ownership, typically 5% or more, in the Company or its affiliates as well as our lenders and other individuals or entities affiliated with us (contractually or otherwise) to obtain a license, permit, finding of suitability or other approval from gaming authorities. Gaming authorities have broad discretion in determining whether an applicant qualifies for licensing or should be deemed suitable and the burden of demonstrating suitability and the cost of the investigation is the responsibility of the applicant. While the criteria vary between jurisdictions, generally, in determining whether to grant or renew a license, the gaming authorities will consider the good character, honesty and integrity of the applicant and the financial ability, integrity and responsibility of the applicant. For individual applicants, gaming authorities consider the individual's business experience and reputation for good character, the individual's criminal history and the character of those with whom the individual associates. Qualification and suitability determinations for individuals requires the individual to submit detailed personal and financial information to the gaming authority, followed by a thorough background investigation. Gaming authorities may deny an application for licensing or a determination of suitability for any cause which they deem reasonable. If one or more gaming authorities were to find that an officer, director or key employee fails to qualify or is unsuitable to participate in the gaming industry in such jurisdiction, we would be required to sever all relationships with such person. Additionally, gaming authorities may require us to terminate the employment of any person who refuses to file appropriate applications. The gaming regulators having jurisdiction over us have broad power over our business operations and may deny, revoke, suspend, condition, limit, or not renew our gaming or other licenses, permits or approvals, impose substantial fines and take other action, any one of which could adversely impact our business, financial condition and results of operation. We believe we and our officers, directors, managers, key employees and affiliates have obtained or are in the process of obtaining all required gaming related licenses, permits, findings of suitability and other forms of approvals necessary to carry on our business.

It is common for gaming regulators to monitor, or to require us to disclose, our activities and any disciplinary actions against us in other gaming jurisdictions. Consequently, the business activities or disciplinary actions taken against us in one jurisdiction could result in disciplinary actions in other jurisdictions.

Licensing Requirements of Security Holders

In some jurisdictions in which we operate, certain of our stockholders or holders of our debt securities may be required to undergo a suitability determination or background investigation. Many jurisdictions require any person who acquires, directly or indirectly, beneficial ownership of more than a certain percentage of our voting securities, generally 5% or more, to report the acquisition of the ownership interest and the gaming authorities may require such holder to apply for qualification or a finding of suitability. Most jurisdictions allow an "institutional investor" to apply for a waiver from such requirements provided that the institutional investor holds the ownership interest in the ordinary course of its business and for passive investment purposes only. Generally, an "institutional investor" includes an investor who is a bank, insurance company, investment company, investment advisor, or pension fund. In some jurisdictions, an application for a waiver as an institutional investor requires the submission of detailed information concerning the institutional investor and its business including, among other things, the name of each person that beneficially owns more than 5% of the voting securities of such institutional investor. If such a waiver is granted, then the institutional investor may acquire, in most cases, up to 10% of our voting securities without applying for a finding of suitability or qualification and, in some cases, a higher percentage of beneficial ownership. Even if a waiver is granted, an institutional investor may not take any action inconsistent with its status when the waiver is granted without becoming subject to a suitability determination or background investigation. A change in the investment intent of the institutional investor requires immediate reporting to the respective gaming authorities.

Notwithstanding the 5% ownership threshold, gaming authorities have broad discretion and each person who acquires, directly or indirectly, beneficial ownership of any voting security or beneficial or record ownership of any nonvoting security of any debt security of ours may be required to be found suitable if a gaming authority has reason to believe that such person's acquisition of that ownership would otherwise be inconsistent with the declared policy of the jurisdiction.

Generally, any person who fails or refuses to apply for a finding of suitability or a license within the prescribed period of time after being advised that such a finding or license is required by a gaming authority may be denied a license or be found unsuitable. The same restrictions may also apply to a record owner if the record owner, after being requested, fails to identify the beneficial owner. Any person denied a license or found unsuitable and who holds, directly or indirectly, any beneficial ownership interest in us beyond such period of time as may be prescribed by the applicable gaming authorities may be guilty of a criminal offense. Additionally, we may be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have a relationship with us or any of our subsidiaries, we:

- pay that person any dividend or interest upon our voting securities;

- allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person;
- pay remuneration in any form to that person for services rendered or otherwise; or
- fail to pursue all lawful efforts to terminate our relationship with that person including, if necessary, the immediate purchase of said voting securities for cash at fair market value.

In light of these regulations and their potential impact on our business, our amended and restated articles of incorporation contain provisions establishing our right to redeem the securities of disqualified holders if necessary to avoid any regulatory sanctions, to prevent the loss or to secure the reinstatement of any license, permit or approval, or if such holder is determined by any gaming authority to be unsuitable, has an application for a license or permit denied or rejected or has a previously issued license or permit rescinded, suspended, revoked or not renewed. The amended and restated articles of incorporation also include provisions defining the redemption price of such securities and the rights of a disqualified security holder.

Testing and Approvals of our Gaming Products

Many jurisdictions require our gaming devices, related gaming equipment, software, and platform to be tested for compliance with the jurisdiction's technical standards and regulations prior to our being permitted to distribute such devices, equipment, software and platform. The gaming authorities will conduct rigorous testing of our devices, equipment, software and platform through a testing laboratory which may be operated by the gaming authority or by an independent third party and may require a field trial of the device, equipment, software or platform before determining that it meets the gaming authority's technical standards. As part of the approval process, a gaming authority may require us to modify, update, or revise our device, equipment, software or platform and the approval process may require several rounds before approval is ultimately granted. The time required for product testing can be extensive.

Continued Reporting and Monitoring

In most jurisdictions, even though we are licensed or approved, we remain under the on-going obligation to provide financial information and reports as well as to keep the applicable gaming authorities informed of any material changes in the information provided to them as part of our licensing and approval process. Most licenses and approvals must be periodically renewed, in some cases as often as annually. In connection with any initial application or renewal of a gaming license or approval, we (and individuals or entities required to submit to background investigations or suitability determinations in connection with our application or renewal) are typically required to make broad and comprehensive disclosures concerning our history, finances, ownership and corporate structure, operations, compliance controls and business relationships. We must regularly report changes in our officers, key employees and other licensed positions to applicable gaming authorities.

Most gaming jurisdictions impose fees and taxes that are payable by us in connection with our application, maintenance and renewal of our licensure or our approval to conduct business. Laws, regulations, and ordinances governing our gaming related activities and the obligations of gaming companies in any jurisdiction in which we have or in the future may have gaming operations are subject to change that could impose additional operating, financial, or other burdens on our business.

Federal Registration

The Gambling Devices Act of 1962 makes it unlawful for a person to manufacture, transport, or receive gaming devices (including our products), or components across interstate lines unless that person has first registered with the Attorney General of the United States Department of Justice. This act also imposes gambling device identification and record keeping requirements. Violation of this act may result in seizure and forfeiture of the equipment, as well as other penalties. As an entity involved in the manufacture and transportation of gaming devices, we are required to register annually.

Native American Gaming Regulation

Gaming on Native American lands is governed by federal law, tribal-state compacts, and tribal gaming regulations. Federally, gaming on Native American lands is subject to IGRA, which is administered by the National Indian Gaming Commission ("NIGC"). Under the IGRA, gaming activities conducted by federally recognized Native American tribes are segmented into three classes:

- Class I, Class II and Class III.

Class I. Class I gaming represents traditional forms of Native American gaming as part of, or in connection with, tribal ceremonies or celebrations (e.g., contests and games of skill) and social gaming for minimal prizes. Class I gaming is regulated only by each individual Native American tribe. We do not participate in any Class I gaming activities.

Class II. Class II gaming involves the game of chance commonly known as bingo (whether or not electronic, computer, or other technological aids are used in connection therewith to facilitate play) and if played in the same location as bingo, also includes pull tabs, punch board, tip jars, instant bingo, and other games similar to bingo. Class II gaming also includes non-banked card games, that is, games that are played exclusively against other players rather than against the house or a player acting as a bank such as poker. However, the definition of Class II gaming specifically excludes slot machines or electronic facsimiles of Class III games. Class II gaming is regulated by the NIGC and the ordinances and regulations of the Native American tribe conducting such gaming. Subject to the detailed requirements of IGRA, including NIGC approval of such Native American tribe's gaming ordinance, federally recognized Native American tribes are typically permitted to conduct Class II gaming on Indian lands pursuant to tribal ordinances approved by the NIGC.

Class III. Class III gaming includes all other forms of gaming that are neither Class I nor Class II and includes a broad range of traditional casino games such as slot machines, blackjack, craps and roulette, as well as wagering games and electronic facsimiles of any game of chance. IGRA generally permits a Native American tribe to conduct Class III gaming activities on reservation lands subject to the detailed requirements of IGRA and provided that the Native American tribe has entered into a written agreement or compact with the state that specifically authorizes the types of Class III gaming the tribe may offer. The tribal-state compacts vary from state to state. Many such tribal-state compacts address the manner and extent to which the state or tribe will license manufacturers and suppliers of gaming devices and conduct background investigations and certify the suitability of persons such as officers, directors, key persons and, in some cases, shareholders of gaming device manufacturers and suppliers.

IGRA is administered by the NIGC and the Secretary of the U.S. Department of the Interior. The NIGC has authority to issue regulations related to tribal gaming activities, approve tribal ordinances for regulating gaming, approve management agreements for gaming facilities, conduct investigations and monitor tribal gaming generally. IGRA is subject to interpretation by the NIGC and may be subject to judicial and legislative

clarification or amendment. The gaming ordinance of each Native American tribe conducting gaming under IGRA and the terms of any applicable tribal-state compact establish the regulatory requirements under which we must conduct business on Native American tribal lands.

Under IGRA, the NIGC's authority to approve gaming-related contracts is limited to management contracts and collateral agreements related to management contracts. A "management contract" includes any agreement between a Native American tribe and a contractor if such contract or agreement provides for the management of all or part of a gaming operation. To the extent that any of our agreements with Native American tribes are deemed to be management contracts, such agreements would require the approval of the NIGC in order to be valid. To our knowledge, none of our current agreements with Native American tribes qualify as management contracts under IGRA.

In addition, to the extent that any of our agreements with Native American tribes are deemed by the NIGC to create an impermissible proprietary interest, such agreements are void and unenforceable. To our knowledge, none of our current agreements with Native American tribes create an impermissible proprietary interest in Indian gaming.

International Regulation

Certain foreign countries permit the importation, sale, and operation of gaming equipment, software and related equipment in casino and non-casino environments. Some countries prohibit or restrict the payout feature of the traditional slot machine or limit the operation and the number of slot machines to a controlled number of casinos or casino-like locations. Gaming equipment must comply with the individual country's regulations. Certain jurisdictions do not require the licensing of gaming equipment operators and manufacturers. In Mexico, for example, gaming regulations have not been formalized and although we believe that we are compliant with the current informal regulations, if there are changes or new interpretations of the regulations in that jurisdiction we may be prevented or hindered from operating our business in Mexico.

Social Gaming Regulation

With respect to our social interactive gaming business, it is largely unregulated at this time. There are, however, movements in some jurisdictions to review social interactive gaming and possibly implement social interactive gaming regulations. We cannot predict the likelihood, timing, scope or terms of any such regulation or the extent to which any such regulation would affect our social interactive gaming business.

We are subject to various federal, state and international laws that affect our interactive business including those relating to the privacy and security of our customer and employee personal information and those relating to the Internet, behavioral tracking, mobile applications, advertising and marketing activities, sweepstakes and contests. Additional laws in all of these areas are likely to be passed in the future, which would result in significant limitations on or changes to the ways in which we collect, use, host, store or transmit the personal information and data of our customers or employees, communicate with our customers or deliver our products and services or may significantly increase our costs of compliance.

Available Information

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Section 13(a) of the Exchange Act will be made available free of charge on or through our website at www.playags.com as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. The information on our website is not, and shall not be deemed to be, part of this report or incorporated into any other filings we make with the SEC. You may also read and obtain copies of any document we file at the SEC's website. The address of this website is www.sec.gov.

From time to time, we may use our website as a channel of distribution of material information. Financial and other material information regarding the Company is routinely posted on and accessible at www.playags.com.

ITEM 1A. RISK FACTORS.

The following risk factors should be considered carefully in addition to the other information contained in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those contained in the forward-looking statements. Factors that may cause such differences include, but are not limited to, those discussed below as well as those discussed elsewhere in this Annual Report on Form 10-K. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected.

Risks Related to Our Business and Industry

We operate in highly competitive industries and our success depends on our ability to effectively compete with numerous domestic and foreign businesses.

We face significant competition in our businesses, especially in the evolving interactive gaming industry, not only from our traditional competitors but also from a number of other domestic and foreign providers (or, in some cases, the operators themselves), some of which have substantially greater financial resources and/or experience than we do. Many of our competitors are large, well-established companies with substantially larger operating staffs and greater capital resources and have been engaged in the design, manufacture and operation of electronic gaming equipment business for many years. We cannot assure you that our products and services will be successful or that we will be able to attract and retain players as our products and services compete with the products and services of others, which may impact the results of our operations.

Our business faces significant competition, including from illegal operators. There are a limited number of gaming operators and many established companies offer competing products. We compete on the basis of the content, features, quality, functionality, responsiveness and price of our products and services.

We also face high levels of competition in the supply of products and services for newly legalized gaming jurisdictions and for openings of new or expanded casinos. Our success is dependent on our ability to successfully enter new markets and compete successfully for new business especially in the face of declining demand for electronic gaming machine replacements.

We also compete to obtain space and favorable placement on casino gaming floors. Casino operators focus on performance, longevity, player appeal and price when making their purchasing and leasing decisions. Competitors with a larger installed base of electronic gaming machines and more game themes than ours may have an advantage in obtaining and retaining placements in casinos.

We have offered customers discounts, free trials and free gaming equipment, including conversion kits (and, in some cases, free electronic gaming machines) in connection with the sale or placement of our products and services. In addition, we have, in some cases, agreed to modify pricing and other contractual terms in connection with the sale or placement of our products. In select instances, we may pay for the right to place electronic gaming machines on a casino's floor and increased fee requirements from such casino operators may greatly reduce our profitability. There can be no assurance that competitive pressure will not cause us to increase the incentives that we offer to our customers or agree to modify contractual terms in ways that are unfavorable to us, which could adversely impact the results of our operations.

Our competitors may provide a greater amount of financing or better terms than we do and this may impact demand for our products and services.

Competition for table game content is focused on player appeal, brand recognition and price. We compete on this basis, as well as on the extent of our sales, service, marketing and distribution channels. We also compete with several companies that primarily develop and license table games, as well as with non-proprietary table games such as blackjack and baccarat.

Our interactive social gaming business is subject to significant competition. We have expanded into interactive social gaming as have several of our competitors and our customers. This expansion causes us to compete with social gaming companies that have no connection to traditional regulated gaming markets and many of those companies have a base of existing users that is larger than ours. In order to stay competitive in our interactive social gaming businesses, we will need to continue to create and market game content that attracts players and invest in new and emerging technologies.

Our RMG interactive business is subject to significant competition based on game content as well as platform reliability and performance. We compete by providing our own and third-party game content via mobile and desktop channels as well as an aggregation platform to online real-money gaming operators. In order to stay competitive in the RMG interactive business, we will need to continue to create and market game content that attracts players in legalized gaming jurisdictions.

Our success is dependent upon our ability to adapt to and offer products that keep pace with evolving technology related to our businesses.

The success of our products and services is affected by changing technology and evolving industry standards. Our ability to anticipate or respond to such changes and to develop and introduce new and enhanced products and services, including, but not limited to, gaming content, electronic gaming machines, table products and interactive gaming products and services, on a timely basis or at all is a significant factor affecting our ability to remain competitive, retain existing contracts or business and expand and attract new customers and players. There can be no assurance that we will achieve the necessary technological advances or have the financial resources needed to introduce new products or services on a timely basis or at all.

Our success depends upon our ability to respond to dynamic customer and player demand by producing new and innovative products and services. The process of developing new products and systems is inherently complex and uncertain. It requires accurate anticipation of changing customer needs and player preferences as well as emerging technological trends. If our competitors develop new game content and technologically innovative products and we fail to keep pace, our business could be adversely affected. If we fail to accurately anticipate customer needs and player preferences through the development of new products and technologies, we could lose business to our competitors, which would adversely affect our results of operations.

We may experience manufacturing, operational or design problems that could delay or prevent the launch of new products or services. Introducing new and innovative products and services requires us to adapt and refine our manufacturing, operations and delivery capabilities to meet the needs of our product innovation. If we cannot efficiently adapt our manufacturing infrastructure to meet the needs associated with our product innovations, or if we are unable to upgrade our production capacity in a timely manner, our business could be negatively impacted. In the past, we have experienced delays in launching new products and services due to the complex or innovative technologies embedded in our products and services. Such delays can adversely impact our results of operations.

In addition, the social gaming landscape is rapidly evolving and is characterized by major fluctuations in the popularity of social products and platforms, such as mobile. We may be unable to develop products at a rate necessary to respond to these changes, or at all, or that anticipate the interests of social players. Likewise, our social gaming offerings operate largely through Facebook, Google Play for Android devices and Apple's iOS platform. If alternative platforms increase in popularity, we could be adversely impacted if we fail to timely create compatible versions of our products.

Our success also depends on creating products and services with strong and sustained player appeal. We are under continuous pressure to anticipate player reactions to, and acceptance of, our new products while continuing to provide successful products that generate a high level of play. In some cases, a new game or electronic gaming machine will only be accepted by our casino or interactive gaming customers if we can demonstrate that it is likely to produce more revenue and/or has more player appeal than our existing products and services or our competitors' products and services.

We have invested, and may continue to invest, significant resources in research and development efforts. We invest in a number of areas, including product development for game and system-based hardware, software and game content. In addition, because of the sophistication of our newer products and the resources committed to their development, they are generally more expensive to produce. If our new products do not gain market acceptance or the increase in the average selling or leasing price of these new products is not proportionate to the increase in production cost, in each case as compared to our prior products, or if the average cost of production does not go down over time, whether by reason of long-term customer acceptance, our ability to find greater efficiencies in the manufacturing process as we refine our production capabilities or a general decrease in the cost of the technology, our margins will suffer and could negatively impact our business and results of operations. There can be no assurance that our investment in research and development will lead to successful new technologies or products. If a new product is not successful, we may not recover our development, regulatory approval or promotion costs.

Our success depends in part on our ability to develop, enhance and/or introduce successful gaming concepts and game content. Demand for our products and the level of play of our products could be adversely affected by changes in player and operator preferences.

We believe that creative and appealing game content produces more revenue for our electronic gaming machine customers and provides them with a competitive advantage, which in turn enhances our revenue and our ability to attract new business and to retain existing business. There can be no assurance that we will be able to sustain the success of our existing game content or effectively develop or obtain from third parties game content or licensed brands that will be widely accepted both by our customers and players. As a supplier of gaming equipment, we must offer themes and products that appeal to gaming operators and players. Our revenues are dependent on the earning power and life span of our games. We therefore face continuous pressure to design and deploy new and successful game themes and technologically innovative products to maintain our revenue and remain competitive. If we are unable to anticipate or react timely to any significant changes in player preferences, the demand for our gaming products and the level of play of our gaming products could decline. Further, we could fail to meet certain minimum performance levels, or operators may reduce revenue sharing arrangements with us, each of which could negatively impact our sales and financial results. In addition, general changes in consumer behavior, such as reduced travel activity or redirection of entertainment dollars to other venues, could result in reduced demand and reduced play levels for our gaming products.

The intellectual property rights of others may prevent us from developing new products and services, entering new markets or may expose us to liability or costly litigation and such litigation could have a material adverse effect on the results of our business or intellectual property.

Our success depends in part on our ability to continually adapt our products to incorporate new technologies and to expand into markets that may be created by new technologies. If technologies are protected by the intellectual property rights of others, including our competitors, we may be prevented from introducing products based on these technologies or expanding into markets created by these technologies. If the intellectual property rights of others prevent us from taking advantage of innovative technologies, our prospects and results of operations may be adversely affected.

There can be no assurance that our business activities, games, products, software, services and systems will not infringe upon the proprietary rights of others, or that other parties will not assert infringement claims against us. In addition to infringement claims, third parties may allege claims of invalidity or unenforceability against us or against our licensees or manufacturers in connection with their use of our technology. A successful challenge to, or invalidation of, one of our intellectual property interests, a successful claim of infringement by a third party against us, our products or services, or one of our licensees in connection with the use of our technologies, or an unsuccessful claim of infringement made by us against a third party or its products or services could adversely affect our business or cause us financial harm. Any such claim and any resulting litigation, should it occur, could:

- be expensive and time consuming to defend or require us to pay significant amounts in damages;
- invalidate our proprietary rights;
- cause us to cease making, licensing or using products or services that incorporate the challenged intellectual property;
- require us to redesign, reengineer or rebrand our products or services or limit our ability to bring new products and services to the market in the future;
- require us to enter into costly or burdensome royalty, licensing or settlement agreements in order to obtain the right to use a product, process or component;
- impact the commercial viability of the products and services that are the subject of the claim during the pendency of such claim; or
- require us by way of injunction to remove products or services on lease or stop selling or leasing new products or services.

A significant portion of our success depends on the protection of our intellectual property. In the future we may make claims of infringement, invalidity or enforceability against third parties. This enforcement could:

- cause us to incur greater costs and expenses in the protection of our intellectual property;
- potentially negatively impact our intellectual property rights;
- cause one or more of our patents, trademarks, copyrights or other intellectual property interests to be ruled or rendered unenforceable or invalid; or
- divert management's attention and our resources.

Our business depends on the protection of our intellectual property and proprietary information and on our ability to license intellectual property from third parties.

We believe that our success depends, in part, on protecting our intellectual property in the U.S. and in foreign countries and our ability to license intellectual property from third parties on commercially reasonable terms. The patent, trademark and trade secret laws of some countries may not protect our intellectual property rights to the same extent as the laws of the United States. Our intellectual property includes certain patents, trademarks and copyrights relating to our products and services (including electronic gaming machines, interactive gaming products, table games, card shufflers and accessories), as well as proprietary or confidential information that is not subject to patent or similar protection. Our success may depend, in part, on our ability to obtain protection for the trademarks, names, logos or symbols under which we market our products and to obtain copyright and patent protection for our proprietary technologies, intellectual property and innovations. There can be no assurance that we will be able to build and maintain consumer value in our trademarks, obtain patent, trademark or copyright protection or that any trademark, copyright or patent will provide us with competitive advantages. In particular, the *Alice Corp. v. CLS Bank International* (2014) U.S. Supreme Court decision tightened the standard for patent eligibility of software patents and other court decisions in recent years have trended towards a narrowing of patentable subject matter. A change in view at the United States Patent and Trademark Office (the "USPTO") has resulted in patents for table games having been put into serious doubt by the USPTO. Thus, our ability to protect table games with patents can impact our ability to sustain a competitive advantage. Furthermore, at least one federal court has held that United States patent, trademark and trade secret laws of general application are not binding on Native American tribes absent a binding waiver of sovereign immunity. These and similar decisions in the future may negatively impact the validity or enforceability of certain of our patents, our ability to protect our inventions, innovations and new technology and the value of our substantial patent portfolio.

Our intellectual property protects the integrity of our games and services. Competitors may independently develop similar or superior products or software, which could negatively impact the results of our operations. We have a limited ability to prevent others from creating materially similar products. Despite our efforts to protect these proprietary rights, unauthorized parties may try to copy our gaming products, business models or systems, use certain of our confidential information to develop competing products, or develop independently or otherwise obtain and use our gaming products or technology. In cases where our technology or product is not protected by enforceable intellectual property rights, such independent development may result in a significant diminution in the value of such technology or product.

We rely on products, technologies and intellectual property that we license from third parties for our businesses. The future success of our business may depend, in part, on our ability to obtain, retain and/or expand licenses for popular technologies and games in a competitive market. There can be no assurance that these third-party licenses, or support for such licensed products and technologies, will continue to be available to us on commercially reasonable terms, if at all. In the event that we cannot renew and/or expand existing licenses, we may be required to discontinue or limit our use of the products that include or incorporate the licensed intellectual property. Certain of our license agreements grant the licensor rights to audit our use of their intellectual property. Disputes with licensors over uses or terms could result in the payment of additional royalties or penalties by us, cancellation or non-renewal of the underlying license or litigation.

We also rely on trade secrets and proprietary know-how. We enter into confidentiality agreements with our employees and independent contractors regarding our trade secrets and proprietary information, but we cannot assure you that the obligation to maintain the confidentiality of our trade secrets and proprietary information will be honored. If these agreements are breached, it is unlikely that the remedies available to us will be sufficient to compensate us for the damages suffered. Additionally, despite various confidentiality agreements and other trade secret protections, our trade secrets and proprietary know-how could become known to, or independently developed by, competitors. Moreover, if our competitors independently develop equivalent knowledge, methods or know-how, it will be more difficult for us to enforce our rights and our business could be harmed.

Our business is vulnerable to changing economic conditions and to other factors that adversely affect the casino industry, which have negatively impacted and could continue to negatively impact the play levels of our participation games, our product sales and our ability to collect outstanding receivables from our customers.

Demand for our products and services depends largely upon favorable conditions in the casino industry, which is highly sensitive to casino patrons' disposable incomes and gaming activities. Discretionary spending on entertainment activities could further decline for reasons beyond our control, such as natural disasters, acts of war, terrorism, transportation disruptions, adverse health crises such as COVID-19, referred to as coronavirus, or the results of adverse weather conditions. Additionally, disposable income available for discretionary spending may be reduced by higher housing, energy, interest, or other costs, or where the actual or perceived wealth of customers has decreased because of circumstances such as lower residential real estate values, increased foreclosure rates, inflation, increased tax rates, or other economic disruptions. Any prolonged or significant decrease in consumer spending on entertainment activities could result in reduced play levels on our participation games, causing our cash flows and revenues from a large share of our recurring revenue products to decline.

We have incurred, and may continue to incur, additional provisions for bad debt related to credit concerns on certain receivables.

We may not successfully enter new markets and potential new markets may not develop quickly or at all.

If and as new and developing domestic markets develop, competition among providers of gaming-related products and services will intensify. We will face a number of hurdles in our attempts to enter these markets, including the need to expand our sales and marketing presence, compete against pre-existing relationships that our target customers may have with our competitors, the uncertainty of compliance with new or developing regulatory regimes (including regulatory regimes relating to internet gaming) with which we are not currently familiar, and oversight by regulators that are not familiar with us or our businesses. Each of these risks could materially impair our ability to successfully expand our operations into these new and developing domestic markets.

In addition, as we attempt to sell our gaming-related products and services into international markets in which we have not previously operated, we may become exposed to political, economic, tax, legal and regulatory risks not faced by businesses that operate only in the United States. The legal and regulatory regimes of foreign markets and their ramifications on our business are less certain. Our international operations are subject to a variety of risks, including different regulatory requirements and interpretations, trade barriers, difficulties in staffing and managing foreign operations, higher rates of fraud, compliance with anti-corruption and export control laws, fluctuations in currency exchange rates, difficulty in enforcing or interpreting contracts or legislation, political and economic instability and potentially adverse tax consequences. Difficulties in obtaining approvals, licenses or waivers from the gaming authorities of other jurisdictions, in addition to other potential regulatory and quasi-regulatory issues that we have not yet ascertained, may arise in international jurisdictions into which we attempt to enter. In these new markets, our operations will rely on an infrastructure of, among other things, financial services and telecommunications facilities that may not be sufficient to support our business needs. In these new markets, we may additionally provide services based upon interpretations of applicable law, which interpretation may be subject to regulatory or judicial review. These risks, among others, could materially and adversely affect our business, financial condition and operations. In connection with our expansion into new international markets, we may forge strategic relationships with business partners to assist us. The success of our expansion into these markets therefore may depend in part upon the success of the business partners with whom we forge these strategic relationships. If we do not successfully form strategic relationships with the right business partners or if we are not able to overcome cultural or business practice differences, our ability to penetrate these new international markets could suffer.

We may not be able to capitalize on the expansion of internet or other forms of interactive gaming or other trends and changes in the gaming industries, including due to laws and regulations governing these industries.

We participate in the new and evolving interactive gaming industry through our social and RMG interactive gaming products. Part of our strategy is to take advantage of the liberalization of interactive gaming, both within the U.S. and internationally. These industries involve significant risks and uncertainties, including legal, business and financial risks. The success of these industries and of our interactive gaming products and services may be affected by future developments in social networks, including Apple, Google or Facebook developments, mobile platforms, regulatory developments, data privacy laws and other factors that we are unable to predict and are beyond our control. This fast-changing environment can make it difficult to plan strategically and can provide opportunities for competitors to grow their businesses at our expense. Consequently, the future results of our operations relating to our interactive gaming products and services are difficult to predict and may not grow at the rates we expect, and we cannot provide assurance that these products and services will be successful in the long term.

In general, our ability to successfully pursue our interactive gaming strategy depends on the laws and regulations relating to our gaming activities through interactive channels.

With respect to our social interactive gaming business, although largely unregulated at this time, there are movements in some jurisdictions to review social gaming and possibly implement social gaming regulations. We cannot predict the likelihood, timing, scope or terms of any such regulation or

the extent to which they may affect our social gaming business. The social business is subject to evolving regulations and the status of any particular jurisdiction may change at any time. The regulatory structure surrounding certain aspects of these businesses is currently in flux in certain jurisdictions.

In jurisdictions that authorize RMG, there can be no assurance that we will be successful in offering our technology, content and services to internet gaming operators as we expect to face intense competition from our traditional competitors in the gaming industry as well as a number of other domestic and foreign providers (or, in some cases, the operators themselves), some of which have substantially greater financial resources and/or experience in this area than we do. In addition, there is a risk that the authorization of the sale of gaming offerings via interactive channels in a particular jurisdiction could, under certain circumstances, adversely impact our gaming offerings through traditional channels in such jurisdiction. Any such adverse impact would be magnified to the extent we are not involved in, and generating revenue from, the provision of RMG interactive gaming products or services in such jurisdiction. Know-your-customer and geo-location programs and technologies supplied by third parties are an important aspect of certain RMG internet and mobile gaming products and services because they confirm certain information with respect to players and prospective players, such as age, identity and location. Payment processing programs and technologies, typically provided by third parties, are also a necessary feature of RMG interactive wagering products and services. These programs and technologies are costly and may have an adverse impact on the results of our operations. Additionally, there can be no assurance that products containing these programs and technologies will be available to us on commercially reasonable terms, if at all, or that they will perform accurately or otherwise in accordance with our required specifications.

Our ability to operate in our existing markets or expand into new jurisdictions could be adversely affected by changing regulations, new interpretations of existing laws, and difficulties or delays in obtaining or maintaining required licenses or approvals.

We operate only in jurisdictions where gaming is legal. The gaming industry is subject to extensive governmental regulation by U.S. federal, state and local governments, as well as Native American tribal governments, and foreign governments. While the regulatory requirements vary by jurisdiction, most require:

- licenses and/or permits;
- documentation of qualifications, including evidence of financial stability;
- other required approvals for companies who design, assemble, supply or distribute gaming equipment and services; and
- individual suitability of officers, directors, major equity holders, lenders, key employees and business partners.

Any license, permit, approval or finding of suitability may be revoked, suspended or conditioned at any time. We may not be able to obtain or maintain all necessary registrations, licenses, permits or approvals, or could experience delays related to the licensing process which could adversely affect our operations and our ability to retain key employees.

To expand into new jurisdictions, in most cases, we will need to be licensed, obtain approvals of our products and/or seek licensure of our officers, directors, major equity holders, key employees or business partners and potentially lenders. If we fail to obtain a license required in a particular jurisdiction for our games and electronic gaming machines, hardware or software or have such license revoked, we will not be able to expand into, or continue doing business in, such jurisdiction. Any delays in obtaining or difficulty in maintaining regulatory approvals needed for expansion within existing markets or into new jurisdictions can negatively affect our opportunities for growth. In addition, the failure of our officers, directors, key employees or business partners, equity holders, or lenders to obtain or receive licenses in one or more jurisdictions may require us to modify or terminate our relationship with such officers, directors, key employees or business partners, equity holders, or lenders, or forego doing business in such jurisdiction.

Although we plan to maintain our compliance with applicable laws as they evolve, there can be no assurance that we will do so and that law enforcement or gaming regulatory authorities will not seek to restrict our business in their jurisdictions or institute enforcement proceedings if we are not compliant. Moreover, in addition to the risk of enforcement action, we are also at risk of loss of business reputation in the event of any potential legal or regulatory investigation whether or not we are ultimately accused of or found to have committed any violation. A negative regulatory finding or ruling in one jurisdiction could have adverse consequences in other jurisdictions, including with gaming regulators. Furthermore, the failure to become licensed, or the loss or conditioning of a license, in one market may have the adverse effect of preventing licensing in other markets or the revocation of licenses we already maintain.

Further, changes in existing gaming regulations or new interpretations of existing gaming laws may hinder or prevent us from continuing to operate in those jurisdictions where we currently do business, which would harm our operating results. In particular, the enactment of unfavorable legislation or government efforts affecting or directed at manufacturers or gaming operators, such as referendums to increase gaming taxes or requirements to use local distributors, would likely have a negative impact on our operations. Gaming regulations in Mexico have not been formalized and although we believe that we are compliant with the current informal regulations, if there are changes or new interpretations of the regulations in that jurisdiction we may be prevented or hindered from operating our business in Mexico.

Many jurisdictions also require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specified percentage (typically 5% or more) of our equity securities and may require the same from our lenders. The failure of these beneficial owners or lenders to submit to such background checks and provide required disclosure could jeopardize our ability to obtain or maintain licensure in such jurisdictions.

The Alabama-Coushatta Tribe of Texas (the "AC Tribe") operates Naskila Gaming (the "Property"), where we currently have gaming machines installed on lease. The National Indian Gaming Commission had advised the AC Tribe that its gaming operations were permissible under the Indian Gaming Regulatory Act of 1988 ("IGRA"). The state of Texas challenged the AC Tribe's gaming operations, arguing that the Texas Restoration Act of 1987 (the "Texas Act") – not IGRA – prevailed over gaming activity on the Property. Subsequently, both a District court and the Fifth Circuit Court of Appeals (the "Fifth Circuit") agreed with the state of Texas that the Texas Act prevailed in this matter.

The AC Tribe appealed their case in the United States Supreme Court and the Supreme Court denied hearing the appeal of the AC Tribe on January 13, 2020, effectively upholding the earlier ruling by the Fifth Circuit that the Texas Act controls with respect to gambling on the AC Tribe's land in Texas.

AGS expects that the AC Tribe will continue to operate EGMs at the Property while awaiting a decision by the Fifth Circuit on related litigation involving another tribe in Texas, in which a ruling could provide clarity regarding the AC Tribe's rights to continue the Property's gaming operations. The Fifth Circuit may also take further action, which could result in the removal of all EGMs at the Property at some point in the future; the exact timing of which is not known. At this time, there is no mandate to remove EGMs at the Property and we do not know if the Fifth Circuit would rule to shutdown gaming operations. Our EGMs at the Property are significantly higher-yielding (relative to our average participation units), due to the Property's high-performing floor. If the Fifth Circuit orders a shutdown of the Property's gaming operations, we estimate that the removal of all our EGMs would lead to a decrease in our revenue in the range of up to \$9 to \$10 million on an annualized basis.

States and other jurisdictions may amend or repeal gaming enabling legislation which could materially impact our business.

States and other jurisdictions may amend or repeal gaming enabling legislation which could materially impact our business. Changes to gaming enabling legislation could increase our operating expenses and compliance costs or decrease the profitability of our operations. Repeal of gaming enabling legislation could result in losses of capital investments and revenue, limit future growth opportunities and have a material adverse impact on our financial condition and results of operations. If any jurisdiction in which we operate were to repeal gaming enabling legislation, there could be no assurance that we could sufficiently increase our revenue in other markets to maintain operations or service our existing indebtedness.

Tribal Compacts in Oklahoma govern Class III gaming activities by and among various Oklahoma tribes that we do business with and the State of Oklahoma. Certain of those tribes and the Governor of Oklahoma are in litigation regarding whether or not certain Compacts renewed at the beginning of 2020. The tribes contend that they automatically renewed but the Governor disagrees. If the Compacts did not automatically renew, they would be deemed expired and Class III gaming activities would presumably cease. We have approximately 3,900 Class III gaming machines operating at Oklahoma tribal casinos. This litigation is in its early stages as it was just filed on December 31, 2019 and the parties are currently subject to Court ordered mediation and as such, the outcome of the litigation is difficult to predict.

Smoking bans in casinos may reduce player traffic and affect our revenues.

Some U.S. jurisdictions have introduced or proposed smoking bans in public venues, including casinos, which may reduce player traffic in the facilities of our current and prospective customers, which may reduce revenues on our participation electronic gaming machines or impair our future growth prospects and therefore may adversely impact our revenues in those jurisdictions. Other participants in the gaming industry have reported declines in gaming revenues following the introduction of a smoking ban in jurisdictions in which they operate and we cannot predict the magnitude or timing of any decrease in revenues resulting from the introduction of a smoking ban in any jurisdiction in which we operate.

We derive a significant portion of our revenue from Native American tribal customers, and our ability to effectively operate in Native American gaming markets is vulnerable to legal and regulatory uncertainties, including the ability to enforce contractual rights on Native American land.

We derive a significant amount of our revenue from participation agreements with Native American gaming operators. Native American tribes are independent governments with sovereign powers and, in the absence of a specific grant of authority by Congress to a state or a specific compact or agreement between a tribal entity and a state that would allow the state to regulate activities taking place on Native American lands, they can enact their own laws and regulate gaming operations and contracts subject to IGRA. In this capacity, Native American tribes generally enjoy sovereign immunity from lawsuits similar to that of the individual states and the United States. Accordingly, before we can seek to enforce contract rights with a Native American tribe, or an agency or instrumentality of a Native American tribe, we must obtain from the Native American tribe a waiver of its sovereign immunity with respect to the matter in dispute, which we are not always able to do. Without a limited waiver of sovereign immunity, or if such waiver is held to be ineffective, we could be precluded from judicially enforcing any rights or remedies against a Native American tribe, including the right to enter Native American lands to retrieve our property in the event of a breach of contract by the tribal party to that contract. Even if the waiver of sovereign immunity by a Native American tribe is deemed effective, there could be an issue as to the forum in which a lawsuit may be brought against the Native American tribe. Federal courts are courts of limited jurisdiction and generally do not have jurisdiction to hear civil cases relating to Native American tribes, and we may be unable to enforce any arbitration decision effectively. Although we attempt to agree upon governing law and venue provisions in our contracts with Native American tribal customers, these provisions vary widely and may not be enforceable.

Certain of our agreements with Native American tribes are subject to review by regulatory authorities. For example, our development agreements may be subject to review by the NIGC, and any such review could require substantial modifications to our agreements or result in the determination that we have a proprietary interest in a Native American tribe's gaming activity (which is prohibited), which could materially and adversely affect the terms on which we conduct our business. The NIGC may also reinterpret applicable laws and regulations, which could affect our agreements with Native American tribes. We could also be affected by alternative interpretations of the Johnson Act as the Native American tribes, who are the customers for our Class II games, could be subject to significant fines and penalties if it is ultimately determined they are offering an illegal game, and an adverse regulatory or judicial determination regarding the legal status of our products could have material adverse consequences for our results of operations.

Government enforcement, regulatory action, judicial decisions and proposed legislative action have in the past, and will likely continue to affect our business and prospects in Native American tribal lands. The legal and regulatory uncertainties surrounding our Native American tribal agreements could result in a significant and immediate material adverse effect on our results of operations. Additionally, such uncertainties could increase our cost of doing business and could take management's attention away from operations. Regulatory action against our customers or equipment in these or other markets could result in machine seizures and significant revenue disruptions, among other adverse consequences. Moreover, Native American tribal policies and procedures, as well as tribal selection of gaming vendors, are subject to the political and governance environment within each Native American tribe. Changes in tribal leadership or tribal political pressure can affect our business relationships within Native American markets.

We may not realize satisfactory returns on money lent to new and existing customers to develop or expand gaming facilities or to acquire gaming routes.

We enter into agreements to provide financing for construction, expansion, or remodeling of gaming facilities, primarily in the state of Oklahoma, and also have agreements in other jurisdictions where we provide loans and advances to route operators to acquire location contracts and fund working

capital. Under these agreements, we secure long-term contracts for game placements under either a revenue share or daily fee basis in exchange for the loans and advances. We may not, however, realize the anticipated benefits of any of these strategic relationships or financings as our success in these ventures is dependent upon the timely completion of the gaming facility, the placement of our electronic gaming machines, and a favorable regulatory environment.

These activities may result in unforeseen operating difficulties, financial risks, or required expenditures that could adversely affect our liquidity. In connection with one or more of these transactions, and to obtain the necessary funds to enter these agreements, we may need to extend secured and unsecured credit to potential or existing customers that may not be repaid, incur debt on terms unfavorable to us or that we are unable to repay, or incur other contingent liabilities.

The failure to maintain controls and processes related to billing and collecting accounts receivable or the deterioration of the financial condition of our customers could negatively impact our business. As a result of these agreements, the collection of notes receivable has become a matter of greater significance. While we believe the increased level of these specific receivables has allowed us to grow our business, it has also required direct, additional focus of and involvement by management. Further, and especially due to the current downturn in the economy, some of our customers may not pay the notes receivable when due.

We rely on information technology and other systems and any failures in our systems could disrupt our business and adversely impact our results.

We rely on information technology systems that are important to the operation of our business, some of which are managed by third parties. These systems are used to process, transmit and store electronic information, to manage and support our business operations and to maintain internal controls over our financial reporting. We could encounter difficulties in developing new systems, maintaining and upgrading current systems and preventing security breaches. Among other things, our systems are susceptible to outages due to fire, floods, power loss, break-ins, cyber-attacks, network penetration, denial of service attacks and similar events. While we have and will continue to implement network security measures and data protection safeguards, our servers and other computer systems are vulnerable to viruses, malicious software, hacking, break-ins or theft, data privacy or security breaches, third-party security breaches, employee error or malfeasance and similar events. Failures in our systems or services or unauthorized access to or tampering with our systems and databases could have a material adverse effect on our business, reputation and results of operations. Any failures in our computer systems or telecommunications services could affect our ability to operate our linked games or otherwise conduct business.

Portions of our information technology infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could materially and adversely impact our ability to deliver products to customers and interrupt other processes. If our information systems do not allow us to transmit accurate information, even for a short period of time, to key decision makers, the ability to manage our business could be disrupted and our results of operations could be materially and adversely affected. Failure to properly or adequately address these issues could impact our ability to perform necessary business operations, which could materially and adversely affect our reputation, competitive position and results of operations.

Due to the ever-changing threat landscape, our operations and services may be subject to certain risks, including hacking or other unauthorized access to control or view systems.

Companies are under increasing attack by cybercriminals around the world. While we implement security measures within our operations and systems, those measures may not prevent cybersecurity breaches; the access, capture, or alteration of information by criminals; the exposure or exploitation of potential security vulnerabilities; distributed denial of service attacks; the installation of malware or ransomware; acts of vandalism; computer viruses; or misplaced data or data loss that could be detrimental to our reputation, business, financial condition, and results of operations. Third parties, including our vendors, could also be a source of security risk to us in the event of a failure of their own products, components, networks, security systems, and infrastructure. In addition, we cannot be certain that advances in criminal capabilities, new discoveries in the field of cryptography, or other developments will not compromise or breach the technology protecting the networks that access our products and services.

Our Interactive segment's products are accessed through the Internet, and leverage the connectivity of Facebook and other mobile platforms. As such, security breaches in connection with the delivery of our services via the Internet may affect us and could be detrimental to our reputation, business, operating results, and financial condition. In addition, we depend on our information technology infrastructure for the business-to-business and business-to-consumer portions of our Interactive segment. Security breaches of, or sustained attacks against, this infrastructure could create system disruptions and shutdowns that could negatively impact our operations. We continue to invest in new and emerging technology and other solutions to protect our network and information systems, but there can be no assurance that these investments and solutions will prevent any of the risks described above.

Our business is dependent on the security and integrity of the systems and products we offer.

We believe that our success depends, in part, on providing secure products, services and systems to our customers. Attempts to penetrate security measures may come from various combinations of customers, retailers, vendors, employees and others. Our ability to prevent anomalies and monitor and ensure the quality and integrity of our products and services is periodically reviewed and enhanced. Similarly, we regularly assess the adequacy of our security systems to protect against any material loss to any of our customers and the integrity of our products and services to players. Expanded utilization of the internet and other interactive technologies may result in increased security risks for us and our customers. There can be no assurance that our business will not be affected by a security breach or lapse, which could have a material adverse impact on our results of operations.

Our success depends on our ability to avoid, detect, replicate and correct software and hardware anomalies and fraudulent manipulation of our electronic gaming machines and other systems. We incorporate security features into the design of our electronic gaming machines and other systems, which are designed to prevent us, our customers and players from being defrauded. We also monitor our software and hardware to avoid, detect and correct any technical errors. However, there can be no guarantee that our security features or technical efforts will continue to be effective in the future. If our security systems fail to prevent fraud or if we experience any significant technical difficulties, our operating results could be adversely affected. Additionally, if third parties breach our security systems and defraud players, or if our hardware or software experiences any technical anomalies, our customers and the public may lose confidence in our operations, or we could become subject to legal claims by our customers or to investigation by gaming authorities.

Our EGMs have experienced anomalies and fraudulent manipulation in the past. Games and EGMs may be replaced by casinos and other electronic gaming machine operators if they do not perform according to expectations or they may be shut down by regulators. The occurrence of anomalies in, or fraudulent manipulation of, our electronic gaming machines or our other gaming products and services (including our interactive products and services), may give rise to claims from players and claims for lost revenue and profits and related litigation by our customers and may subject us to investigation or other action by regulatory authorities, including suspension or revocation of our licenses or other disciplinary action. Additionally, in

the event of the occurrence of any such issues with our products and services, substantial engineering and marketing resources may be diverted from other projects to correct these issues, which may delay other projects and the achievement of our strategic objectives.

Although our network is private, it is susceptible to outages due to fire, floods, power loss, break-ins, cyberattacks and similar events. We have back-up capabilities for our services in the event of any such occurrence. Despite our implementation of network security measures, our servers are vulnerable to computer viruses and break-ins. Similar disruptions from unauthorized tampering with our computer systems in any such event could have a material adverse effect on our business, operating results and financial condition.

Slow growth in the development of new gaming jurisdictions or the number of new casinos, declines in the rate of replacement of existing electronic gaming machines and ownership changes and consolidation in the casino industry could limit or reduce our future prospects.

Demand for our new participation electronic gaming machine placements and game sales is partially driven by the development of new gaming jurisdictions, the addition of new casinos or expansion of existing casinos within existing gaming jurisdictions and the replacement of existing electronic gaming machines. The establishment or expansion of gaming in any jurisdiction typically requires a public referendum or other legislative action. As a result, gaming continues to be the subject of public debate, and there are numerous active organizations that oppose gaming. There can be no assurances that new gaming jurisdictions will be established in the future or that existing jurisdictions will expand gaming, and, thus, our growth strategy could be negatively impacted.

To the extent new gaming jurisdictions are established or expanded, we cannot guarantee we will be successful penetrating such new jurisdictions or expanding our business in line with the growth of existing jurisdictions. As we enter into new markets, we may encounter legal and regulatory challenges that are difficult or impossible to foresee and which could result in an unforeseen adverse impact on planned revenues or costs associated with the new market opportunity. If we are unable to effectively develop and operate within these new markets, then our business, operating results and financial condition would be impaired. Furthermore, as we attempt to generate new streams of revenue by placing our participation electronic gaming machines or RMG Interactive products with new customers, we may have difficulty implementing an effective placement strategy for jurisdictional-specific games. Our failure to successfully implement an effective placement strategy could cause our future operating results to vary materially from what management has forecasted.

In addition, the construction of new casinos or expansion of existing casinos fluctuates with demand, general economic conditions and the availability of financing. We believe the rate of gaming growth in North America has decelerated and machine replacements are at historically low levels. Slow growth in the establishment of new gaming jurisdictions or delays in the opening of new or expanded casinos and continued declines in, or low levels of demand for, electronic gaming machine replacements could reduce the demand for our products and our future profits. Our business could be negatively affected if one or more of our customers is sold to or merges with another entity that utilizes more of the products and services of one of our competitors or that reduces spending on our products or causes downward pricing pressures. Such consolidations could lead to order cancellations, a slowing in the rate of electronic gaming machine replacements, or require our current customers to switch to our competitors' products, any of which could negatively impact our results of operations.

The results of our operations could be affected by natural events in the locations in which we or our customers, suppliers or regulators operate.

We may be impacted by severe weather and other geological events, including hurricanes, earthquakes, floods or tsunamis that could disrupt our operations or the operations of our customers, suppliers, data service providers and regulators. Natural disasters or other disruptions at any of our facilities or our suppliers' facilities may impair or delay delivery of our products and services. Additionally, disruptions experienced by our regulators due to natural disasters or otherwise could delay our introduction of new products or entry into new jurisdictions where regulatory approval is necessary. Adverse weather conditions, particularly flooding, tornadoes, heavy snowfall and other extreme weather conditions often deter our customer's players from traveling, or make it difficult for them to frequent the sites where our games are installed. If any of those sites experienced prolonged adverse weather conditions, or if the sites in Oklahoma, where a significant number of our games are installed, simultaneously experienced adverse weather conditions, our results of operations and financial condition would be materially and adversely affected. While we insure against certain business interruption risks, we cannot provide any assurance that such insurance will compensate us for any losses incurred as a result of natural or other disasters. Any serious disruption to our operations, or those of our customers, our suppliers or our regulators, could have a material adverse effect on the results of our operations.

We are dependent on our suppliers and contract manufacturers and any failure of these parties to meet our performance and quality standards or requirements could cause us to incur additional costs or lose customers.

The manufacturing, assembling and designing of our electronic gaming machines depends upon a continuous supply of raw materials and components, such as source cabinets, which we currently source primarily from a limited number of suppliers, some of whom are domiciled in various parts of the world. Our operating results could be adversely affected by an interruption or cessation in the supply of these items or a serious quality assurance lapse, including as a result of the insolvency of any of our key suppliers. Our suppliers may be affected by world events, health crises such as COVID-19, referred to as coronavirus, other factors that are out of their control and that therefore affect the products or their ability to fulfill our product requirements. We may be unable to find adequate replacements for our suppliers within a reasonable time frame, on favorable commercial terms or at all. Further, manufacturing costs may unexpectedly increase and we may not be able to successfully recover any or all of such cost increases.

The risks related to operations in foreign countries and outside of traditional U.S jurisdictions could negatively affect our results.

We operate in jurisdictions outside of the United States, principally in Mexico and on tribal lands of Native American tribes. The developments noted below, among others, could adversely affect our financial condition and results of operations:

- social, political or economic instability;
- additional costs of compliance with international laws or unexpected changes in regulatory requirements;
- tariffs and other trade barriers;
- fluctuations in foreign exchange rates outside the United States;
- adverse changes in the creditworthiness of parties with whom we have significant receivables or forward currency exchange contracts;
- expropriation, nationalization and restrictions on repatriation of funds or assets;
- difficulty protecting our intellectual property;
- recessions in foreign economies;
- difficulties in maintaining foreign operations;
- changes in consumer tastes and trends;
- risks associated with compliance with anti-corruption laws;
- acts of war or terrorism; and
- U.S. government requirements for export.

In addition, our ability to expand successfully in foreign jurisdictions involves other risks, including difficulties in integrating foreign operations, risks associated with entering jurisdictions in which we may have little experience and the day-to-day management of a growing and increasingly geographically diverse company. Our investment in foreign jurisdictions often entails partnering or other business relationships with locally based entities, which can involve additional risks arising from our lack of sole decision-making authority, our reliance on a partner's financial condition, inconsistency between our business interests or goals and those of our partners and disputes between us and our partners.

In June 2016, a referendum was passed in the United Kingdom to leave the European Union, commonly referred to as "Brexit." This decision created an uncertain political and economic environment in the United Kingdom and other European Union countries, and the formal process for leaving the European Union took years to complete. The United Kingdom formally left the European Union on January 31, 2020, and is now in a transition period through December 31, 2020. Although the United Kingdom will remain in the European Union single market and customs union during the transition period, the long-term nature of the United Kingdom's relationship with the European Union is unclear and there is considerable uncertainty as to when any agreement will be reached and implemented. The political and economic instability created by Brexit has caused and may continue to cause significant volatility in global markets and uncertainty. This uncertainty may affect other countries in the E.U., or elsewhere, if they are considered to be impacted by these events. Additionally, political parties in several other E.U. member states have proposed that a similar referendum be held to determine their country's membership in the E.U. It is unclear whether any other E.U. member states will hold such referendums, but such referendums could result in one or more other countries leaving the E.U. or in major reforms being made to the E.U. or to the Eurozone. It is also unclear what status Gibraltar will have after the withdrawal of the United Kingdom from the E.U. This outcome may further have a material adverse effect on our operations as AGS iGaming operates in Gibraltar.

Foreign currency exchange rate fluctuations and other risks could impact our business.

For the year ended December 31, 2019, we derived approximately 15% of our revenue from customers outside of the United States. Our consolidated financial results are affected by foreign currency exchange rate fluctuations. Foreign currency exchange rate exposures arise from current transactions and anticipated transactions denominated in currencies other than U.S. dollars and from the translation of foreign currency denominated balance sheet accounts into U.S. dollar-denominated balance sheet accounts. We are exposed to currency exchange rate fluctuations because portions of our revenue and expenses are denominated in currencies other than the U.S. dollar, particularly the Mexican peso. If a foreign currency is devalued in a jurisdiction in which we are paid in such currency, we may require our customers to pay higher amounts for our products, which they may be unable or unwilling to pay.

Our business is subject to quarterly fluctuation.

Historically, our operating results have been highest during the first and second quarters and lowest in our third and fourth quarters, primarily due to the seasonality of player demand. Our quarterly operating results may vary based on the timing of the opening of new gaming jurisdictions, the opening or closing of casinos, the expansion or contraction of existing casinos, approval or denial of our products and corporate licenses under gaming regulations, the introduction of new products, the seasonality of customer capital budgets, the mix of domestic versus international sales and the mix of lease and royalty revenue versus sales and service revenue. As a result, our operating results could be volatile, particularly on a quarterly basis.

In light of the foregoing, results for any quarter are not necessarily indicative of the results that may be achieved in another quarter or for the full fiscal year. There can be no assurance that the seasonal trends and other factors that have impacted our historical results will repeat in future periods as we cannot influence or forecast many of these factors.

We could face risks associated with, or arising out of, environmental, health and safety laws and regulations.

We are subject to various U.S. federal, state and local laws and regulations that (i) regulate certain activities and operations that may have environmental or health and safety effects, such as the use of regulated materials in the manufacture of our products by third parties or our disposal of materials, substances or wastes, (ii) impose liability for costs of cleaning up, and damages to natural resources from, past spills, waste disposals on and off-site, or other releases of hazardous materials or regulated substances, and (iii) regulate workplace safety. Compliance with these laws and regulations could increase our and our third-party manufacturers' costs and impact the availability of components required to manufacture our products. Violation of these laws may subject us to significant fines, penalties or disposal costs, which could negatively impact our results of operations. We could be responsible for the investigation and remediation of environmental conditions at currently or formerly operated or leased sites, as well as for associated liabilities, including liabilities for natural resource damages, third party property damage or personal injury resulting from lawsuits that could be brought by the government or private litigants, relating to our operations, the operations of facilities or the land on which our facilities are located. We may be subject to these liabilities regardless of whether we lease or own the facility, and regardless of whether such environmental conditions were created by us or by a prior owner or tenant, or by a third party or a neighboring facility whose operations may have affected such facility or land. That is because liability for contamination under certain environmental laws can be imposed on current or past owners or operators of a site without regard to fault. We cannot assure you that environmental conditions relating to our prior, existing or future sites or those of predecessor companies whose liabilities we may have assumed or acquired will not have a material adverse effect on our business.

If our products contain defects, we may be liable for product defects or other claims, our reputation could be harmed and our results of operations adversely affected.

Our products could be defective, fail to perform as designed or otherwise cause harm to our customers, their equipment or their products. If any of our products are defective, we may be required to recall the products and/or repair or replace them, which could result in substantial expenses and affect our profitability. Any problem with the performance of our products, such as a false jackpot or other prize, could harm our reputation, which could result in a loss of sales to customers and/or potential customers and in turn termination of leases, cancellation of orders, product returns and diversion of our resources. In addition, the occurrence of errors in, or fraudulent manipulation of, our products or software may give rise to claims by our customers or by our customers' players, including claims by our customers for lost revenues and related litigation that could result in significant liability. Any claims brought against us by customers may result in diversion of management's time and attention, expenditure of large amounts of cash on legal fees and payment of damages, lower demand for our products or services, or injury to our reputation. Our insurance may not sufficiently cover a judgment against us or a settlement payment and is subject to customary deductibles, limits and exclusions. In addition, a judgment against us or a settlement could make it difficult for us to obtain insurance in the coverage amounts necessary to adequately insure our businesses, or at all, and could materially increase our insurance premiums and deductibles in the future. In addition, software bugs or malfunctions, errors in distribution or installation of our software, failure of our products to perform as approved by the appropriate regulatory bodies or other errors or malfunctions, may subject us to investigation or other action by gaming regulatory authorities, including fines. Any of these occurrences could also result in the loss of or delay in market acceptance of our products and loss of revenue.

Our revenues are vulnerable to the impact of changes to the Class II regulatory scheme.

Our Native American tribal customers that operate Class II games under IGRA are subject to regulation by the NIGC. The NIGC has conducted and is expected to again conduct consultations with industry participants regarding Native American gaming activities, including the clarification of regulations regarding Class II electronic gaming machines. It is possible that any such changes in regulations, when finally enacted, could cause us to modify our Class II games to comply with the new regulations, which may result in our products becoming less competitive. Any required conversion of games pursuant to changing regulatory schemes could cause a disruption to our business. In addition, we could lose market share to competitors who offer games that do not appear to comply with published regulatory restrictions on Class II games and therefore offer features not available in our products.

State compacts with our existing Native American tribal customers to allow Class III gaming could reduce demand for our Class II games and our entry into the Class III market may be difficult as we compete against larger companies in the tribal Class III market.

Most of our Class II Native American tribal customers have entered into compacts with the states in which they operate to permit the operation of Class III games. While we seek to also provide Class III alternatives in these markets, we believe the number of our Class II game machine placements in those customers' facilities could decline, and our operating results could be materially and adversely affected. As our Native American tribal customers continue to transition to gaming under compacts with the state, we continue to face significant uncertainty in the market that makes our business in these states difficult to manage and predict and we may be forced to compete with larger companies that specialize in Class III gaming. We believe the establishment of state compacts depends on a number of political, social, and economic factors that are inherently difficult to ascertain. Accordingly, although we attempt to closely monitor state legislative developments that could affect our business, we may not be able to timely predict if or when a compact could be entered into by one or more of our Native American tribal customers. For example, in Oklahoma, the continued introduction of Class III games since the passage of the tribal gaming compact in 2004 may put pressure on our revenue and unit market share and our revenue share percentages and may result in a shift in the market from revenue share arrangements to a "for sale" model.

Our social interactive gaming business is largely dependent upon our relationships with key channels and changes in those relationships could negatively impact our social interactive gaming business.

In our social interactive gaming business, our services operate largely through Facebook, Google Play for Android devices and Apple's iOS platforms. Consequently, our expansion and prospects of our social gaming offerings are dependent on our continued relationships with these channels (and any emerging app store channels). Our relationships with Facebook, Google and Apple are not governed by contracts but rather by the channel's standard terms and conditions for app developers. Our social interactive gaming business will be adversely impacted if we are unable to continue these relationships in the future or if the terms and conditions offered by these channels are altered to our disadvantage. For instance, if any of these channels were to increase their fees, the results of our operations would suffer. Likewise, if Facebook, Google or Apple were to alter their operating platforms, we could be adversely impacted as our offerings may not be compatible with the altered platforms or may require significant and costly modifications in order to become compatible. If Facebook, Google or Apple were to develop competitive offerings, either on their own or in cooperation with one or more competitors, our growth prospects would be negatively impacted.

The participation share rates for gaming revenue we receive pursuant to our participation agreements with our Native American tribal customers may decrease in the future.

The percentage of gaming revenue we receive pursuant to our participation agreements, or our participation share rates, with our Native American tribal customers may decrease upon contract renewals, negatively affecting our profit margins. There can be no assurance that participation rates will not decrease in the future. In addition, our Native American tribal customers may adopt policies or insist upon additional business terms during the renewal of our existing participation agreements that negatively affect the profitability of those relationships. In addition, any participation agreements we may enter into in the future with new customers or in new jurisdictions may not have terms as favorable as our existing participation agreements.

We generate a substantial amount of our total revenue from two customers and in two states.

For the year ended December 31, 2019, approximately 24% of our total revenue was derived from gaming operations in Oklahoma, and approximately 9% of our total revenue was from one Native American gaming tribe in that state. Additionally, for the year ended December 31, 2019, approximately 8% of our total revenue was derived from gaming operations in Alabama, and approximately 8% of our total revenue was from one Native American gaming tribe in that state. The significant concentration of our revenue in Oklahoma and Alabama means that local economic, regulatory and licensing changes in Oklahoma or Alabama may adversely affect our business disproportionately to changes in national economic conditions, including adverse economic declines or slower economic recovery from prior declines. While we continue to seek to diversify the markets in which we operate, changes to our business, operations, game performance and customer relationships in Oklahoma or Alabama, due to changing gaming regulations or licensing requirements, higher taxes, increased competition, declines in market revenue share percentages or otherwise, could have a material and adverse effect on our financial condition and results of operations. In addition, changes in our relationship with our two largest customers, including any disagreements or disputes, a decrease in revenue share, removal of electronic gaming machines or non-renewal of contracts, could have a material and adverse effect on our financial condition and results of operations.

Certain contracts with our customers are on a month-to-month basis, and if we are unable to maintain our current customers on terms that are favorable to us, our business, financial condition, or results of operations may suffer a detrimental effect.

Certain contracts with our customers are generally on a month-to-month basis, except for customers with whom we have entered into development and placement fee agreements. We do not rely upon the stated term of our gaming device contracts to retain the business of our customers. We rely instead upon providing competitive electronic gaming machines, games and systems to give our customers the incentive to continue doing business with us. At any point in time, a significant portion of our gaming device business is subject to nonrenewal, which may have a detrimental effect on our earnings, financial condition and cash flows. To renew or extend any of our customer contracts generally, we may be required to accept financial and other terms that are less favorable to us than the terms of the expired contracts. In addition, we may not succeed in renewing customer contracts when they expire. If we are required to agree to other less favorable terms to retain our customers or we are not able to renew our relationships with our customers upon the expiration of our contracts, our business, financial condition or results of operations may suffer a detrimental effect.

Some of our products contain open source software which may be subject to restrictive open source licenses, requiring us to make our source code available to third parties and potentially granting third parties certain rights to the software.

Some of our products contain open source software which may be subject to restrictive open source licenses. Some of these licenses may require that we make our source code governed by the open source software licenses available to third parties and/or license such software under the terms of a particular open source license, potentially granting third parties certain rights to our software. We may incur legal expenses in defending against claims that we did not abide by such licenses. If our defenses are unsuccessful, we may be enjoined from distributing products containing such open source software, be required to make the relevant source code available to third parties, be required to grant third parties certain rights to the software, be subject to potential damages or be required to remove the open source software from our products. Any of these outcomes could disrupt our distribution and sale of related products and adversely affect our business.

We rely on hardware, software and games licensed from third parties, and on technology provided by third-party vendors, the loss of which could materially and adversely affect our business, increase our costs and delay deployment or suspend development of our electronic gaming machines, games and systems.

We have entered into license agreements with third parties for the exclusive use of their technology and intellectual property rights in the gaming industry and we also rely on third-party manufacturers to manufacture certain gaming equipment. We rely on these other parties to maintain and protect this technology and the related intellectual property rights. If our licensors fail to protect their intellectual property rights in material that we license and we are unable to protect such intellectual property rights, the value of our licenses may diminish significantly and our business could be significantly harmed.

In addition, if these agreements expire and we are unable to renew them, or if the manufacturers of this software or hardware, or functional equivalents of this software or hardware, were either no longer available to us or no longer offered to us on commercially reasonable terms, we may lose a valuable competitive advantage and our business could be harmed.

Acts of God, adverse weather and shipping difficulties, particularly with respect to international third-party suppliers of our components, could cause significant production delays. If we are unable to obtain these components from our established third-party vendors, we could be required to either redesign our product to function with alternate third-party products or to develop or manufacture these components ourselves, which would result in increased costs and could result in delays in the deployment of our electronic gaming machines, games and systems. Furthermore, we might be forced to limit the features available in our current or future offerings.

We rely on intellectual property licenses from one or more third-party competitors, the loss of which could materially and adversely affect our business and the sale or placement of our products. Various third-party gaming manufacturers with which we compete are much larger than us and have substantially larger intellectual property assets. The gaming manufacturer industry is very competitive and litigious, and a lawsuit brought by one of our larger competitors, whether or not well-founded, may have a material adverse effect on our business, financial condition, operations or cash flows and our ability to sell or place our products.

Continued operation and our ability to service several of our installed electronic gaming machines depends upon our relationships with service providers, and changes in those relationships could negatively impact our business.

We operate many electronic gaming machines that utilize third party software for which we do not own or control the underlying software code. Further, we enter into arrangements with third party vendors, from time to time, for the provision of services related to development and operation of our products. Consequently, our operations, growth prospects and future revenues could be dependent on our continued relationships with third party vendors. While we have historically maintained good relationships with third party vendors, our business would suffer if we are unable to continue these relationships in the future. Our third party vendors may have economic or business interests or goals that are inconsistent with our interests and goals, take actions contrary to our objectives or policies, undergo a change of control, experience financial and other difficulties or be unable or unwilling to fulfill their obligations under our arrangements. The failure to avoid or mitigate the risks described above or other risks associated with such arrangements could have a material adverse effect on our results of operations.

We have a history of operating losses and a significant accumulated deficit, and we may not achieve or maintain profitability in the future.

We have not been profitable and cannot predict when we will achieve profitability, if ever. As of December 31, 2019, we had an accumulated deficit of approximately \$235.5 million, as a result of historical operating losses. These losses have resulted principally from depreciation and amortization, interest, research and development, sales and marketing and administrative expenses. We also expect our costs to increase in future periods. For example, we intend to expend significant funds to expand our sales and marketing operations, develop new products, meet the increased compliance requirements associated with our transition to and operation as a public company, expand into new markets, and we may not be able to increase our revenue enough to offset our higher operating expenses. We may incur significant losses in the future for a number of other reasons, including the other risks described in this Form 10-K, and unforeseen expenses, difficulties, complications and delays, and other unknown events. While we believe our growth strategy will help us achieve profitability, there can be no guarantee. If we are unable to achieve and sustain profitability, our stock price may significantly decrease.

Our inability to complete future acquisitions and integrate those businesses successfully could limit our future growth.

From time to time, we pursue strategic acquisitions in support of our strategic goals. In connection with any such acquisitions, we could face significant challenges in managing and integrating our expanded or combined operations, including acquired assets, operations and personnel. There can be no assurance that acquisition opportunities will be available on acceptable terms or at all or that we will be able to obtain necessary financing or regulatory approvals to complete potential acquisitions. Our ability to succeed in implementing our strategy will depend to some degree upon the ability of our management to identify, complete and successfully integrate commercially viable acquisitions. Acquisition transactions may disrupt our ongoing business and distract management from other responsibilities.

In addition, there can be no assurance regarding when or the extent to which we will be able to realize any anticipated financial or operational benefits, synergies or cost savings from these acquisitions. We may also incur greater costs than estimated to achieve all of the synergies and other benefits from an acquisition. Integration may also be difficult, unpredictable and subject to delay because of possible company culture conflicts and different opinions on technical decisions and product roadmaps. We may be required to integrate or, in some cases, replace, numerous systems, such as those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll, data privacy and security and regulatory compliance.

Failure to attract, retain and motivate key employees may adversely affect our ability to compete.

Our success depends largely on recruiting and retaining talented employees. The market for qualified, licensable executives and highly skilled, technical workers, such as content developers, is intensely competitive. The loss of key employees or an inability to hire a sufficient number of technical workers could limit our ability to develop successful products, cause delays in getting new products to market, cause disruptions to our customer relationships or otherwise adversely affect our business.

Changes in tax regulation and results of tax audits could affect results of operations of our business.

We are subject to taxation in the United States, Canada, Mexico, United Kingdom, Brazil, Australia, Philippines and Israel. Significant judgment is required to determine and estimate tax liabilities and there are many transactions and calculations where the ultimate tax determination is uncertain. Our future annual and quarterly effective tax rates could be affected by numerous factors, including changes in the applicable tax laws; the composition of pre-tax income in jurisdictions with differing tax rates; the valuation of or valuation allowances against our deferred tax assets and liabilities and substantive changes to tax rules and the application thereof by United States federal, state, local and foreign governments, all of which could result in materially higher corporate taxes than would be incurred under existing tax law or interpretation and could adversely affect our profitability. It is possible that future tax audits or changes in tax regulation may require us to change our prior period tax returns and also to incur additional costs. This may negatively affect future period results.

Further, our determination of our tax liability is always subject to audit and review by applicable domestic and foreign tax authorities. Any adverse outcome of any such audit or review could have an adverse effect on our business and reduce our profits to the extent potential tax liabilities exceed our reserves, and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made, as well as future periods. We assess the likelihood of favorable or unfavorable outcomes resulting from examinations by the Internal Revenue Service and state, local and foreign tax authorities to determine the adequacy of our provision for income taxes. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be materially different from the treatment reflected in our historical income tax provisions and accruals, which could materially and adversely affect our financial condition and results of operations.

We are continuing to maintain our internal controls over financial reporting.

Our independent registered public accounting firm is not required to audit the effectiveness of our internal control over financial reporting until after we are no longer an "emerging growth company," as defined in the "Jumpstart Our Business Startups Act of 2012", which at the latest would be the end of the fiscal year following the fifth anniversary of the initial public offering. At such time, our internal controls over financial reporting may be

insufficiently documented, designed or operating, which may cause our independent registered public accounting firm to issue a report that is adverse.

Risks Related to Our Capital Structure

Our substantial indebtedness could adversely affect our ability to raise additional capital or to fund our operations, expose us to interest rate risk to the extent of our variable rate debt, limit our ability to react to changes in the economy, and prevent us from making debt service payments.

We are a highly leveraged company. As of December 31, 2019, we had \$533.7 million aggregate principal amount of outstanding indebtedness, in addition to \$30.0 million available for borrowing under the revolving credit facility at that date. For the year ended December 31, 2019, we had debt service costs of \$38.1 million.

Our substantial indebtedness could have important consequences for us, including, but not limited to, the following:

- limit our ability to borrow money for our working capital, capital expenditures, debt service requirements, strategic initiatives or other purposes;
- make it more difficult for us to satisfy our obligations, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the agreements governing our indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to the repayment of our indebtedness, thereby reducing funds available to us for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our operations or business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that are less leveraged and that, therefore, may be able to take advantage of opportunities that our leverage prevents us from exploring;
- impact our rent expense on leased space, which could be significant;
- increase our vulnerability to general adverse economic industry and competitive conditions;
- restrict us from making strategic acquisitions, engaging in development activities, introducing new technologies, or exploiting business opportunities;
- cause us to make non-strategic divestitures;
- limit, along with the financial and other restrictive covenants in the agreements governing our indebtedness, among other things, our ability to borrow additional funds or dispose of assets;
- limit our ability to repurchase shares and pay cash dividends; and
- expose us to the risk of increased interest rates, as certain of our borrowings are at variable rates of interest.

In addition, our senior secured credit agreement contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of substantially all of our indebtedness.

We may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in the credit facility. If new indebtedness is added to our current debt levels, the related risks described above could intensify.

We may not be able to generate sufficient cash to service all of our indebtedness, and we may be forced to take other actions to satisfy our obligations under our indebtedness that may not be successful.

Our ability to pay principal and interest on our debt obligations will depend upon, among other things, (a) our future financial and operating performance (including the realization of any cost savings described herein), which will be affected by prevailing economic, industry and competitive conditions and financial, business, legislative, regulatory and other factors, many of which are beyond our control; and (b) our future ability to borrow under the revolving credit facility, the availability of which depends on, among other things, our complying with the covenants in the credit agreement governing such facility.

We cannot assure you that our business will generate cash flow from operations, or that we will be able to draw under the revolving credit facility or otherwise, in an amount sufficient to fund our liquidity needs, including the payment of principal and interest on our debt. If our cash flows and capital resources are insufficient to service our indebtedness, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital, or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt agreements may restrict us from adopting some of these alternatives. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such dispositions may not be adequate to meet our debt service obligations then due. Apollo and its affiliates have no continuing obligation to provide us with debt or equity financing. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, could have a material adverse effect on our business, results of operations, and financial condition, and could negatively impact our ability to satisfy our debt obligations.

Changes to the method of determining LIBOR or the selection of a replacement for LIBOR may affect our financial instruments.

In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop collecting LIBOR rates from banks after 2021. The announcement indicates that LIBOR will not continue to exist on the current basis. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions convened by the Federal Reserve, has recommended the Secured Overnight Financing Rate ("SOFR") as a more robust reference rate alternative to U.S. dollar LIBOR. SOFR is calculated based on overnight transactions under repurchase agreements, backed by Treasury securities. SOFR is observed and backward looking, which stands in contrast with LIBOR under the current methodology, which is an estimated forward-looking rate and relies, to some degree, on the expert judgment of submitting panel members. Whether or not SOFR attains market traction as a LIBOR replacement tool remains in question. We are unable to predict the effect of any changes to LIBOR, the establishment

and success of any alternative reference rates, or any other reforms to LIBOR or any replacement of LIBOR that may be enacted in the United Kingdom or elsewhere. Such changes, reforms or replacements relating to LIBOR could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, derivatives or other financial instruments or extensions of credit held by or due to us.

Risks Related to Ownership of Our Common Stock

Our stock price may fluctuate significantly.

The market price of our common stock could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the market price of our common stock, you could lose a substantial part or all of your investment in our common stock. The following factors could affect our stock price:

- our operating and financial performance;
- quarterly variations in the rate of growth (if any) of our financial indicators, such as net income per share, net income and revenues;
- the public reaction to our press releases, our other public announcements and our filings with the SEC;
- strategic actions by our competitors;
- changes in operating performance and the stock market valuations of other companies;
- announcements related to litigation;
- our failure to meet revenue or earnings estimates made by research analysts or other investors;
- changes in revenue or earnings estimates, or changes in recommendations or withdrawal of research coverage, by equity research analysts;
- speculation in the press or investment community;
- sales of our common stock by us or our stockholders, or the perception that such sales may occur;
- changes in accounting principles, policies, guidance, interpretations or standards;
- additions or departures of key management personnel;
- actions by our stockholders;
- general market conditions;
- domestic and international economic, legal and regulatory factors unrelated to our performance; and
- the realization of any risks described under this “Risk Factors” section, or other risks that may materialize in the future.

The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company’s securities. Such litigation, if instituted against us, could result in very substantial costs, divert our management’s attention and resources and harm our business, financial condition and results of operations.

We are an “emerging growth company,” and are able take advantage of reduced disclosure requirements applicable to “emerging growth companies,” which could make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act, and, for as long as we continue to be an “emerging growth company,” we intend to take advantage of certain exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies.” These exemptions include not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an “emerging growth company” until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, (iii) the last day of our fiscal year following the fifth anniversary of the consummation of our initial public offering, and (iv) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three-year period. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will continue to incur significant costs and devote substantial management time as a result of operating as a public company, particularly after we are no longer an “emerging growth company.”

As a public company, we will continue to incur significant legal, accounting, insurance and other expenses. For example, we will be required to comply with certain requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the Securities and Exchange Commission, and the New York Stock Exchange, our stock exchange, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. We expect that compliance with these requirements continue to result in increased legal and financial compliance costs and will continue to make some activities more time consuming and costly. In addition, we expect that our management and other personnel will continue to divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we expect to continue incurring significant expenses and devote substantial management effort toward ensuring compliance with the requirements of the Sarbanes-Oxley Act. In that regard, we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

However, for as long as we remain an “emerging growth company” as defined in the JOBS Act, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

Under the JOBS Act, “emerging growth companies” can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not “emerging growth companies.”

After we are no longer an “emerging growth company,” we expect to incur additional management time and cost to comply with the more stringent reporting requirements applicable to companies that are deemed accelerated filers or large accelerated filers, including complying with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act.

Additionally, as a public company we are subject to public scrutiny, shareholder actions, and potential legal claims that may arise in the normal course of running our business. The cost of insurance, including director and officer liability insurance, for a public company is significant and can increase significantly in any given year.

We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

Even though we are no longer effectively controlled by Apollo, Apollo’s interests may conflict with our interests and the interests of other stockholders.

As of December 31, 2019, VoteCo, an entity owned and controlled by individuals affiliated with Apollo, beneficially owns 22.3% of our common equity pursuant to an irrevocable proxy, which provides VoteCo with sole voting and sole dispositive power over all shares beneficially owned by the the Apollo Group, which includes any of (a) Apollo Gaming Holdings, L.P. (“Holdings”), (b) Apollo Investment Fund VIII, L.P., (c) each of their respective affiliates (including, for avoidance of doubt, any syndication vehicles and excluding, for the avoidance of doubt, any portfolio companies of Apollo Management VIII, L.P. or its affiliates other than Holdings, VoteCo, the Company and their respective subsidiaries) to which any transfers of our common stock are made and (d) VoteCo to the extent that it has beneficial ownership of shares of our common stock pursuant to an irrevocable proxy (collectively, the “Apollo Group”). The Apollo Group beneficially owns 22.3% of our common equity. As a result, the Apollo Group beneficially owns less than 50% of our equity, and VoteCo and individuals affiliated with Apollo no longer have effective control and do not have significant influence over the outcome of votes on all matters requiring approval by our stockholders, including entering into significant corporate transactions such as mergers, tender offers and the sale of all or substantially all of our assets and issuance of additional debt or equity. Nevertheless, the interests of Apollo and its affiliates, including the Apollo Group, could conflict with or differ from our interests or the interests of our other stockholders. For example, the concentration of ownership held by the Apollo Group could delay, defer or prevent a change of control of our company or impede a merger, takeover or other business combination which may otherwise be favorable for us. Additionally, Apollo and its affiliates are in the business of making investments in companies and may, from time to time, acquire and hold interests in businesses that compete, directly or indirectly with us. Apollo and its affiliates may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as the Apollo Group continues to directly or indirectly own a significant amount of our equity, even though such amount is less than 50%, Apollo and its affiliates will continue to be able to substantially influence or effectively control our ability to enter into corporate transactions.

Our amended and restated articles of incorporation contain a provision renouncing our interest and expectancy in certain corporate opportunities.

Under our amended and restated articles of incorporation, neither Apollo, its portfolio companies, funds or other affiliates, nor any of their officers, directors, agents, stockholders, members or partners have any duty to refrain from engaging, directly or indirectly, in the same business activities, similar business activities or lines of business in which we operate. In addition, our amended and restated articles of incorporation provide that, to the fullest extent permitted by law, we waive and must indemnify any officer or director of ours who is also an officer, director, employee, managing director or other affiliate of Apollo against any claim that any such individual is liable to us or our stockholders for breach of any fiduciary duty solely by reason of the fact that such individual directs a corporate opportunity to Apollo instead of us, or does not communicate information regarding a corporate opportunity to us that the officer, director, employee, managing director or other affiliate has directed to Apollo. For instance, a director of our company who also serves as a director, officer or employee of Apollo or any of its portfolio companies, funds or other affiliates may pursue certain acquisitions or other opportunities that may be complementary to our business and, as a result, such acquisition or other opportunities may not be available to us. These potential conflicts of interest could have a material adverse effect on our business, financial condition, results of operations or prospects if attractive corporate opportunities are allocated by Apollo to itself or its portfolio companies, funds or other affiliates instead of to us. The terms of our amended and restated articles of incorporation are more fully described in “Description of Capital Stock.”

Our amended and restated articles of incorporation provide that the Eighth Judicial District Court of Clark County, Nevada is the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated articles of incorporation provide that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by applicable law the Eighth Judicial District Court of Clark County, Nevada is the sole and exclusive forum for any or all actions, suits or proceedings, whether civil, administrative or investigative or that asserts any claim or counterclaim: (a) brought in our name or right or on our behalf; (b) asserting a claim for breach of any fiduciary duty owed by any of our directors, officers, employees or agents to us or our stockholders; (c) arising or asserting a claim arising pursuant to any provision of the Nevada Revised Statutes (the “NRS”) Chapters 78 or 92A or any provision of our amended and restated articles of incorporation or our amended and restated bylaws; (d) to interpret, apply, enforce or determine the validity of our amended and restated articles of incorporation or our amended and restated bylaws; or (e) asserting a claim governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated articles of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business, financial condition and results of operations.

Our organizational documents may impede or discourage a takeover, which could deprive our investors of the opportunity to receive a premium for their shares.

Provisions of our amended and restated articles of incorporation, our amended and restated bylaws and our Stockholders Agreement (see “Certain Relationships and Related Party Transactions—Stockholders Agreements”) may make it more difficult for, or prevent a third party from, acquiring control of us without the approval of our board of directors. These provisions include:

- having a classified board of directors;
- prohibiting cumulative voting in the election of directors;
- empowering only the board to fill any vacancy on our board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise, and requiring that, until the first time the Apollo Group ceases to beneficially own at least 5% of our common stock, any vacancy resulting from the death, removal or resignation of a director nominated by Holdings pursuant to the Stockholders Agreement (see “Item 10. Directors, Executive Officers and Corporate Governance—Apollo Group Approval of Certain Matters and Rights to Nominate Certain Directors”) be filled by a nominee of Holdings;
- authorizing “blank check” preferred stock, the terms and issuance of which can be determined by our board of directors without any need for action by stockholders;
- restricting stockholders from acting by written consent or calling special meetings; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

An issuance of shares of preferred stock could delay or prevent a change in control of us. Our board of directors has the authority to cause us to issue, without any further vote or action by the stockholders, shares of preferred stock, par value \$0.01 per share, in one or more series, to designate the number of shares constituting any series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series. The issuance of shares of our preferred stock may have the effect of delaying, deferring or preventing a change in control without further action by the stockholders, even where stockholders are offered a premium for their shares.

These articles of incorporation, bylaws, and contractual provisions could make the removal of management more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our common stock. Furthermore, the existence of the foregoing provisions, as well as the significant common stock beneficially owned by the Apollo Group and Holdings’ rights to nominate a specified number of directors in certain circumstances, could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of us, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

We are a holding company and rely on dividends, distributions and other payments, advances and transfers of funds from our subsidiaries to meet our obligations.

We are a holding company that does not conduct any business operations of our own. As a result, we are largely dependent upon cash dividends and distributions and other transfers from our subsidiaries to meet our obligations. The agreements governing the indebtedness of our subsidiaries, and limitations on payment of dividends and distributions under applicable law, impose restrictions on our subsidiaries’ ability to pay dividends or other distributions to us. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness.” The deterioration of the earnings from, or other available assets of, our subsidiaries for any reason could also limit or impair their ability to pay dividends or other distributions to us.

You may be diluted by the future issuance of additional common stock or convertible securities in connection with our incentive plans, acquisitions or otherwise, which could adversely affect our stock price.

As of December 31, 2019, we had 414,465,442 shares of common stock authorized but unissued. Our amended and restated articles of incorporation authorize us to issue these shares of common stock and options, rights, warrants and appreciation rights relating to common stock for the consideration and on the terms and conditions established by our board of directors in its sole discretion, whether in connection with acquisitions or otherwise. We have reserved 1,651,244 shares for issuance upon exercise of outstanding stock options and restricted shares and 1,607,389 for issuances under our new equity incentive plan. Any common stock that we issue, including under our new equity incentive plan or other equity incentive plans that we may adopt in the future, as well as under outstanding options would dilute the percentage ownership held by the investors who purchase common stock in this offering.

From time to time in the future, we may also issue additional shares of our common stock or securities convertible into common stock pursuant to a variety of transactions, including acquisitions. Our issuance of additional shares of our common stock or securities convertible into our common stock would dilute your ownership of us and the sale of a significant amount of such shares in the public market could adversely affect prevailing market prices of our common stock.

Future sales of our common stock in the public market, or the perception in the public market that such sales may occur, could reduce our stock price.

A substantial amount of our outstanding shares of common stock, including those held by Apollo and members of management, are “restricted securities” within the meaning of Rule 144 under the Securities Act of 1933, as amended (the “Securities Act”). As restricted shares, these shares may be resold only pursuant to an effective registration statement or under the requirements of Rule 144 or other applicable exemptions from registration under the Securities Act and as required under applicable state securities laws. All of the issued and outstanding shares of our common stock are eligible for future sale, subject to the applicable volume, manner of sale, holding periods and other limitations of Rule 144. Sales of significant amounts of stock in the public market could adversely affect prevailing market prices of our common stock.

We do not anticipate paying dividends on our common stock in the foreseeable future.

We do not anticipate paying any dividends in the foreseeable future on our common stock. We intend to retain all future earnings for the operation and expansion of our business and the repayment of outstanding debt. Our senior secured credit facilities contain, and any future indebtedness likely will contain, restrictive covenants that impose significant operating and financial restrictions on us, including restrictions on our ability to pay dividends and make other restricted payments. As a result, capital appreciation, if any, of our common stock may be your major source of gain for the foreseeable future. While we may change this policy at some point in the future, we cannot assure you that we will make such a change. See "Dividend Policy."

If securities or industry analysts do not publish research or reports about our business or publish negative reports, our stock price could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrades our common stock or if our operating results do not meet their expectations, our stock price could decline.

We may issue preferred stock, the terms of which could adversely affect the voting power or value of our common stock.

Our amended and restated articles of incorporation authorize us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock. No shares of preferred stock have been issued to date.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We currently lease the following properties:

Location	Purpose	Square footage	Segment
308 Anthony Ave., Oklahoma City, OK. 73128	Administrative offices, manufacturing and warehousing	91,961	EGM, Table Products
2400 Commerce Ave, Duluth, GA 30096	Research and development	55,264	EGM
5475 S. Decatur Blvd. #100, Las Vegas, NV. 89118	Corporate headquarters, manufacturing and warehousing	42,964	EGM, Table Products
165 Ottley Drive, Atlanta, GA 30324	Research and development	19,533	EGM
Lago Tana No. 43, Warehouse 8 and 10, Colonia Huichapan, Mexico City, Mexico	Warehousing	18,191	EGM
39 Delhi Road, Suite 1 and 5.04, Level 5, Trinitii II, Sydney, Australia	Research and development	8,450	EGM
Jaime Balmes No. 8, office no. 204, Colonia Los Morales Polanco, Mexico City, Mexico	Administrative offices	8,154	EGM
5520 Kietzake Lane, Reno, NV 89511	Research and development	3,705	EGM
11401 Century Oaks Terrace, Austin, TX. 78758	Administrative offices	2,951	EGM
24 Raoul Wallenberg St. Building C, Floors 5 and 10. Tel Aviv, Israel	Research and development	1,850	Interactive
Elizabeth House, St. Mary's Road, Hinckley, Leicestershire. LE10 1EO	Administrative offices	1,452	Interactive
138a Main Street, Gibraltar CX11 1AA	Administrative offices	172	Interactive

None of the properties listed above are held in fee or subject to any major encumbrance. In addition to those listed above, we lease a number of additional properties in the United States and internationally that support our operations.

ITEM 3. LEGAL PROCEEDINGS.

We are party to various claims and legal actions that arise in the ordinary course of business. We do not believe the outcome of such disputes or legal actions will have a material adverse effect on our financial condition, results of operations, liquidity or capital resources.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

The Company's common stock began trading on the NYSE under the symbol "AGS" on January 26, 2018. On March 1, 2020, we had approximately 5 holders of record.

Dividends

We do not intend to pay dividends for the foreseeable future. We are not required to pay dividends, and our stockholders are not guaranteed, or have contractual or other rights to receive, dividends. The declaration and payment of any future dividends is at the sole discretion of our board of directors and depends upon, among other things, our earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to the payment of dividends, and other considerations that our board of directors deems relevant. Our board of directors may decide, in its discretion, at any time, to modify or repeal the dividend policy or discontinue entirely the payment of dividends.

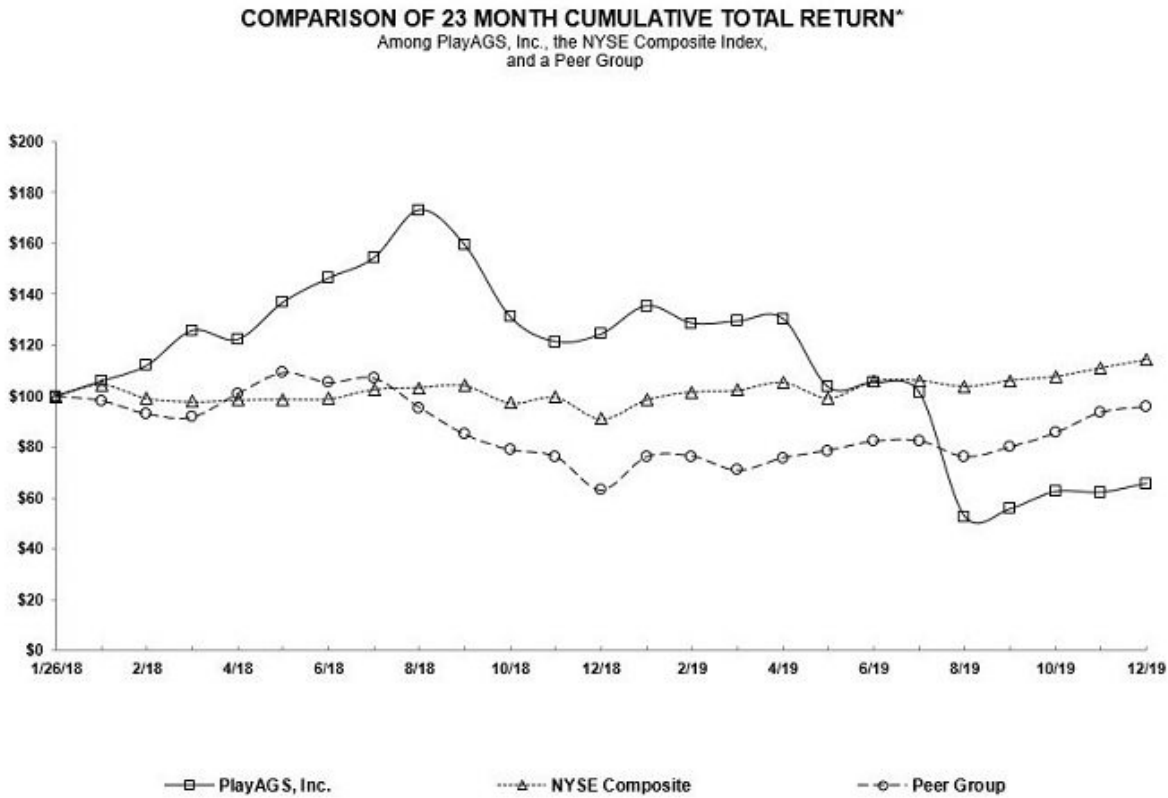
The ability of our board of directors to declare a dividend is also subject to limits imposed by Nevada corporate law. Under Nevada law, our board of directors and the boards of directors of our corporate subsidiaries incorporated in Delaware may declare dividends only to the extent of our “surplus,” which is defined as total assets at fair market value minus total liabilities, minus statutory capital, or if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Additionally our debt agreements contain limitations on our ability to declare and pay dividends.

Equity Compensation

Refer to Item 11. for a description of the Company’s Management Incentive Plan.

Stockholder Return Performance Graph

The following graph compares the cumulative total return to stockholders on our then outstanding shares of common stock, the New York Stock Exchange (“NYSE”) Composite Index and indices of our peer group companies that operate in industries or lines of business similar to ours from January 2018, the month in which we completed our initial public offering, through December 31, 2019. Our peer group companies consist of Aristocrat (Australian Securities Exchange: ALL), IGT (New York Stock Exchange: IGT), Everi Holdings Inc. (New York Stock Exchange: EVRI) and Scientific Games Corporation (Nasdaq Composite Index: SGMS).



*\$100 invested on 1/26/18 in stock or 12/31/17 in index, including reinvestment of dividends. Fiscal year ending December 31.

The companies in each peer group have been weighted based on their relative market capitalization each year. The graph assumes that \$100 was invested in our then outstanding common stock, the New York Stock Exchange and the peer group indices at the beginning of the one-year period and that any dividends were reinvested. The comparisons are not intended to be indicative of future performance of our shares of common stock.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

ITEM 6. SELECTED FINANCIAL DATA.

The selected financial data set forth below is qualified in its entirety by, and should be read in conjunction with, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited financial statements, the notes thereto and other financial and statistical information included elsewhere in this Annual Report on Form 10-K. The selected financial data presented below has been derived from the audited financial statements, including the consolidated balance sheets as of December 31, 2019, 2018, 2017, 2016, and 2015, and the related consolidated statements of operations and comprehensive loss and of cash flows for the years ended December 31, 2019, 2018, 2017, 2016 and 2015. The historical results set forth below do not indicate results expected for any future periods. Our future results of operations will be subject to significant business, economic, regulatory and competitive uncertainties and contingencies, some of which are beyond our control (amounts in thousands, except per share data):

	For the Year Ended December 31,				
	2019	2018	2017	2016	2015
Consolidated Statement of Operations Data:					
Revenues	\$ 304,714	\$ 285,299	\$ 211,955	\$ 166,806	\$ 123,292
Income / (loss) from operations	\$ 23,737	\$ 25,290	\$ 14,502	\$ (17,064)	\$ (29,439)
Net loss attributable to PlayAGS, Inc.	\$ (11,752)	\$ (20,846)	\$ (45,106)	\$ (81,374)	\$ (38,545)
Total comprehensive loss	\$ (10,386)	\$ (20,817)	\$ (44,363)	\$ (84,109)	\$ (40,644)
Basic and diluted loss per common share:					
Basic	\$ (0.33)	\$ (0.61)	\$ (1.94)	\$ (3.51)	\$ (1.92)
Diluted	\$ (0.33)	\$ (0.61)	\$ (1.94)	\$ (3.51)	\$ (1.92)

	As of December 31,				
	2019	2018	2017	2016	2015
Consolidated Balance Sheet Data:					
Total assets	\$ 762,378	\$ 731,342	\$ 697,242	\$ 634,092	\$ 711,147
Total liabilities	\$ 628,594	\$ 595,538	\$ 725,177	\$ 617,664	\$ 610,610
Total long-term obligations ⁽¹⁾	\$ 572,118	\$ 548,099	\$ 681,457	\$ 584,635	\$ 580,661
Total stockholders' equity/(deficit)	\$ 133,784	\$ 135,804	\$ (27,935)	\$ 16,428	\$ 100,537

(1) Includes long-term debt, deferred tax liability - non-current, operating lease liabilities, long-term and other long-term liabilities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In this filing, the following discussion and analysis of financial condition and results of operations should be read in conjunction with "Item 1. Business," "Item 6. Selected Financial Data" and our Financial Statements included elsewhere in this Annual Report on Form 10-K and the information included in our other filings with the SEC. This discussion includes forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the Private Securities Litigation Reform Act of 1995 and should be read in conjunction with the disclosure and information contained and referenced in "Cautionary Note Regarding Forward-Looking Statements" and "Item 1A. Risk Factors" included elsewhere in this Annual Report on Form 10-K.

For a discussion of the year ended December 31, 2018 compared to the year ended December 31, 2017, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2018.

Overview

We are a leading designer and supplier of EGMs and other products and services for the gaming industry. We operate our business in three distinct segments: EGMs, Table Products and Interactive. Each segment's activities include the design, development, acquisition, manufacturing, marketing, distribution, installation and servicing of a distinct product line. Founded in 2005, we historically focused on supplying EGMs, including slot machines, video bingo machines, and other electronic gaming devices, to the Native American gaming market. Since 2014, we have expanded our product lineup to include: (i) Class III EGMs for commercial and Native American casinos permitted to operate Class III EGMs, (ii) table game products and (iii) interactive products, all of which we believe provide us with growth opportunities as we expand in markets where we currently have limited or no presence. For the year ended December 31, 2019, approximately 70% of our total revenue was generated through recurring contracted lease agreements whereby we place EGMs and table game products at our customers' gaming facilities under either a revenue sharing agreement (we receive a percentage of the revenues that these products generate) or fee-per-day agreement (we receive a daily or monthly fixed fee per EGM or table game product), or recurring revenue from our interactive gaming operations.

Key Drivers of Our Business

Our revenues are impacted by the following key factors:

- the amount of money spent by consumers on our domestic revenue share installed base;
- the amount of the daily fee and selling price of our participation electronic gaming machines;
- our revenue share percentage with customers;
- the capital budgets of our customers;
- the level of replacement of existing electronic gaming machines in existing casinos;
- expansion of existing casinos;
- development of new casinos;
- opening or closing of new gaming jurisdictions both in the United States and internationally;
- our ability to obtain and maintain gaming licenses in various jurisdictions;
- the relative competitiveness and popularity of our electronic gaming machines compared to competitive products offered in the same facilities; and
- general macro-economic factors, including levels of and changes to consumer disposable income and personal consumption spending.

Our expenses are impacted by the following key factors:

- fluctuations in the cost of labor relating to productivity;
- overtime and training;
- fluctuations in the price of components for gaming equipment;
- fluctuations in energy prices;
- changes in the cost of obtaining and maintaining gaming licenses;
- fluctuations in the level of maintenance expense required on gaming equipment; and
- tariff increases.

Variations in our selling, general and administrative expenses and research and development are primarily due to changes in employment and salaries and related fringe benefits.

Acquisitions and Divestitures

We have made several strategic acquisitions over the past two years.

In Bet Gaming II

During the quarter ended September 30, 2019, we acquired certain intangible assets related to table game intellectual property from In Bet Gaming, Inc (“In Bet II”). The acquisition was accounted for as an acquisition of a business and the assets acquired were measured based on our estimates of their fair values at the acquisition date. We attribute the goodwill recognized to our ability to commercialize the products over our distribution and sales network, opportunities for synergies, and other strategic benefits. The consideration of \$4.0 million was allocated primarily to tax deductible goodwill for \$1.2 million and intangible assets of \$2.8 million.

Integrity

During the quarter ended March 31, 2019, we acquired all of the equity of Integrity Gaming Corp. (“Integrity”), a regional slot route operator with over 2,500 gaming machines in operation across over 33 casinos in Oklahoma and Texas. The acquisition was accounted for as an acquisition of a business and the assets acquired and liabilities assumed were measured based on our estimates of their fair values at the acquisition date. We attribute the goodwill recognized to our ability to utilize Integrity’s installed base to maximize revenue of the combined product portfolio and the synergies we can obtain through the reduction in our combined service and overhead costs. The total consideration for this acquisition was \$52.6 million. The consideration was allocated primarily to non-tax deductible goodwill for \$11.4 million, property and equipment of \$12.7 million and intangible assets of \$30.6 million.

AGS iGaming

During the quarter ended June 30, 2018, the Company acquired all of the equity of Gameiom, a licensed gaming aggregator and content provider to online gaming operators for real money gaming (“RMG”).

The total consideration for this acquisition was \$5.0 million, which included cash paid of \$4.5 million and \$0.5 million of deferred consideration that was paid within 18 months of the acquisition date. The consideration was preliminarily allocated primarily to non-tax deductible goodwill for \$3.7 million and intangible assets of \$2.1 million.

Results of Operations

Year Ended December 31, 2019 compared to the Year Ended December 31, 2018

The following tables set forth certain selected audited consolidated financial data for the periods indicated (in thousands):

	Year ended December 31,		\$	%
	2019	2018		
Consolidated Statements of Operations:				
Revenues				
Gaming operations	\$ 210,534	\$ 201,809	8,725	4.3%
Equipment sales	94,180	83,490	10,690	12.8%
Total revenues	304,714	285,299	19,415	6.8%
Operating expenses				
Cost of gaming operations	40,955	39,268	1,687	4.3%
Cost of equipment sales	45,513	39,670	5,843	14.7%
Selling, general and administrative	61,785	63,038	(1,253)	(2.0)%
Research and development	34,338	31,745	2,593	8.2%
Write-downs and other charges	6,912	8,753	(1,841)	(21.0)%
Depreciation and amortization	91,474	77,535	13,939	18.0%
Total operating expenses	280,977	260,009	20,968	8.1%
Income from operations	23,737	25,290	(1,553)	(6.1)%
Other expense (income)				
Interest expense	36,248	37,607	(1,359)	(3.6)%
Interest income	(163)	(207)	44	(21.3)%
Loss on extinguishment and modification of debt	—	6,625	(6,625)	(100.0)%
Other expense (income)	4,622	10,488	(5,866)	(55.9)%
Loss before income taxes	(16,970)	(29,223)	12,253	(41.9)%
Income tax benefit	5,449	8,377	(2,928)	(35.0)%
Net loss	(11,521)	(20,846)	9,325	(44.7)%
Less: Net income attributable to non-controlling interests	(231)	—	(231)	(100.0)%
Net loss attributable to PlayAgs, Inc.	\$ (11,752)	\$ (20,846)	9,094	(43.6)%

Revenues

Gaming Operations. The increase in gaming operations revenue was primarily due to the increase in our EGM installed base by 2,072 domestic units, which is primarily attributable to the purchase of approximately 2,500 EGMs from Integrity in February 2019, as described in Item 15. “Exhibits and Financial Statement Schedules.” Note 2 to our consolidated financial statements. The increase is also attributable to the continued success of our *ICON* cabinet and the popularity of our *Orion Portrait* cabinet that have increased our installed base, offset by the strategic removal of approximately 500 EGMs in July of the prior year at one casino and by the sale of 700 of previously leased VLT EGMs. In addition, the increase is also attributed to the increase of 146 international EGM units, due to the expansion of our market share in underserved markets within Mexico and our initial entry into the Philippines. Additionally, Table Products gaming operations revenue increased \$2.2 million which is attributable to the increase in the Table Products installed base to 3,766 units compared to 3,162 units in the prior year period. These increases were offset by a \$1.8 million decrease in our interactive segment primarily related to a decrease of B2C social revenues.

Equipment Sales. The increase in equipment sales revenue is due to the sale of 4,879 EGM units for the year ended December 31, 2019, compared to 4,387 EGM units in the prior year period. The increase in the number of units sold is primarily attributable to the success of our new *Orion Portrait* cabinet and our growth in the Class III market as well as the launch of the *Orion Upright* cabinet. To a lesser extent, the increase is attributable to the sale in the current year of 327 previously leased, lower yielding units to a distributor.

Operating Expenses

Cost of Gaming Operations. The increase in costs of gaming operations was the result of increased service costs on our increased installed base of 26,865 EGM units compared to 24,647 units in the prior year period, as well as increased table games installed base that increased 19.1% compared to the prior year period. As a percentage of gaming operations revenue, costs of gaming operations was 19.5% for the year ended December 31, 2019 and 2018

Cost of Equipment Sales. The increase in cost of equipment sales is attributable to the increase of 4,879 EGM units sold for the year ended December 31, 2019 compared to 4,387 units sold in prior year period. As a percentage of equipment sales revenue, costs of equipment sales was 48.3% for the year ended December 31, 2019 compared to 47.5% for the prior year period as a result of the difference in the mix of products sold compared to the prior year period.

Selling, General and Administrative. The decrease in selling, general and administrative expenses is primarily due to the decrease of stock-based compensation expense in the amount of \$3.3 million due to the initial charge of \$6.2 million recorded in the first quarter of 2018 in connection with the IPO, a decrease in sales and marketing expenses of \$1.4 million that is primarily related to reduced user acquisition costs in our interactive segment and a decrease in professional fees of \$0.5 million. The decrease was offset by increases of \$2.4 million in salaries and benefits due to higher headcount, and a \$0.7 million increase related to our provision for bad debt.

Research and Development. The increase in research and development costs is primarily due to an increase in salaries and benefit costs due to higher headcount of \$1.8 million, an increase of \$1.2 million of stock-based compensation expense, offset by a decrease in professional fees of \$0.2 million.

Write-downs and Other Charges. The Consolidated Statements of Operations and Comprehensive Loss include various transactions, such as loss on disposal or impairment of long-lived assets and fair value adjustments to contingent consideration that have been classified as write-downs and other charges. During the year ended December 31, 2019, the Company recognized \$6.9 million in write-downs and other charges. The activity was primarily driven by losses from the impairment to goodwill in the RMG interactive reporting unit of \$3.5 million and impairments of intangible assets in the RMG Interactive reporting unit of \$1.3 million, which are described in Item 15. "Exhibits and Financial Statement Schedules." Note 4. We also recorded losses from the disposal of assets of \$1.1 million, impairment of intangible assets related to game titles of \$0.5 million (the Company used level 3 of observable inputs in conducting the impairment tests), and a fair value adjustment to contingent consideration of \$0.5 million (the Company used level 3 fair value measurements based on projected cash flows).

During the year ended December 31, 2018, the Company recognized \$8.8 million in write-downs and other charges driven by losses from the disposal of assets of \$2.0 million, the impairment of goodwill related to Social interactive reporting unit of \$4.8 million (the Company used level 3 fair value measurements based on projected cash flows), the full impairment of intangible assets related to game titles and assets associated with terminated development agreements of \$1.3 million (the Company used level 3 of observable inputs in conducting the impairment tests), and a fair value adjustment to contingent consideration of \$0.7 million (the Company used level 3 fair value measurements based on projected cash flows).

Due to the changing nature of our write-downs and other charges, we describe the composition of the balances as opposed to providing a year over year comparison.

Depreciation and Amortization. The increase was predominantly due to a \$12.7 million increase in depreciation expense driven by an increased installed base and an increase in amortization expense of \$1.3 million due to intangible assets being placed into service.

Other Expense (Income)

Interest Expense. The decrease in interest expense is predominantly attributed to the redemption of our 11.25% senior secured PIK notes in January 2018 as well as the further decrease in the interest rate on our first lien credit facilities we obtained on February 7, 2018 and October 5, 2018. See Item 15. "Exhibits and Financial Statement Schedules." Note 6 for a detailed discussion regarding long-term debt.

Other Expense (Income). The decrease of \$5.1 million in the current year and \$9.6 million in the prior year is predominantly attributed to the write-off of indemnification receivables as the related liability for uncertain tax positions was also written-off due to the expiration of the statute of limitations. See Item 15. "Exhibits and Financial Statement Schedules." Note 12. for a detailed description of the indemnification receivable. The remaining change was due to the effect of foreign currency fluctuation on trade payables and receivables denominated in foreign currencies.

Income Taxes

The Company's effective income tax rate for the year ended December 31, 2019, was a benefit of 32.1%. The difference between the federal statutory rate of 21.0% and the Company's effective tax rate for the year ended December 31, 2019, was primarily due to changes in our valuation allowance on deferred tax assets, various permanent items, lapse in the applicable statute of limitations for certain uncertain tax positions and impairment of goodwill. The Company's effective income tax rate for the year ended December 31, 2018, was a benefit of 28.7%. The difference between the federal statutory rate of 21.0% and the Company's effective tax rate for the year ended December 31, 2018, was primarily due to changes in our valuation allowance on deferred tax assets and lapse in the applicable statute of limitations for certain uncertain tax positions.

Segment Operating Results

We report our business segment results by segment in accordance with the "management approach." The management approach designates the internal reporting used by our chief operating decision maker, who is our Chief Executive Officer, for making decisions and assessing performance of our reportable segments.

See Item 15. "Exhibits and Financial Statement Schedules." Note 1. for a detailed discussion of our three segments. Each segment's activities include the design, development, acquisition, manufacturing, marketing, distribution, installation and servicing of its product lines. We evaluate the performance of our operating segments based on revenues and segment adjusted EBITDA.

Segment revenues include leasing, licensing or selling of products within each reportable segment. We measure segment performance in terms of revenue, segment-specific adjusted EBITDA and unit placements. We believe that unit placements are an important gauge of segment performance for EGM's and Table Products because it measures historical market placements of leased and sold units and provides insight into potential markets for next generation products and service. We do not present a sold unit cumulative installed base as previously sold units may no longer be in use by our customers or may have been replaced by other models or products.

Adjusted Expenses

We have provided (i) adjusted cost of gaming operations, (ii) adjusted selling, general and administrative costs and (iii) adjusted research and development cost (collectively, the “Adjusted Expenses”) in this Form 10-K because we believe such measure provides investors with additional information to measure our performance.

We believe that the presentation of each of the Adjusted Expenses is appropriate to provide additional information to investors about certain non-cash items that vary greatly and are difficult to predict. These Adjusted Expenses take into account non-cash stock compensation expense, acquisitions and integration related costs including restructuring and severance, initial and secondary public offering costs, legal and litigation expenses including settlement payments, non-cash charges on capitalized installation and delivery, non-cash charges and loss on disposition of assets and other adjustments. Further, we believe each of the Adjusted Expenses provides a meaningful measure of our expenses because we use it for evaluating our business performance, making budgeting decisions, and comparing our performance against that of other peer companies using similar measures. It also provides management and investors with additional information to estimate our value.

Each of the Adjusted Expenses is not a presentation made in accordance with GAAP. Our use of the term Adjusted Expenses may vary from others in our industry. Each of the Adjusted Expenses should not be considered as an alternative to our operating expenses under GAAP. Each of the Adjusted Expenses has important limitations as an analytical tool, and you should not consider it in isolation or as a substitute for the analysis of our results as reported under GAAP.

Our definition of Adjusted Expenses allows us to add back certain non-cash charges that are deducted in calculating net income and to deduct certain gains that are included in calculating net income. However, these expenses and gains vary greatly, and are difficult to predict. They can represent the effect of long-term strategies as opposed to short-term results. In addition, in the case of charges or expenses, these items can represent the reduction of cash that could be used for other corporate purposes.

Due to these limitations, we rely primarily on our GAAP cost of gaming operations, cost of equipment sales, selling, general and administrative costs and research and development costs and use each of the Adjusted Expenses only supplementarily.

The tables below present each of the Adjusted Expenses and include a reconciliation to the nearest GAAP measure.

Electronic Gaming Machines

Year Ended December 31, 2019 compared to the Year Ended December 31, 2018

(amounts in thousands except unit data)	Year Ended December 31,		\$	%
	2019	2018	Change	Change
EGM segment revenues:				
Gaming operations	\$ 196,101	\$ 187,809	\$ 8,292	4.4%
Equipment sales	93,541	83,216	10,325	12.4%
Total EGM revenues	\$ 289,642	\$ 271,025	\$ 18,617	6.9%
EGM segment expenses and adjusted expenses:				
Cost of gaming operations⁽¹⁾	37,831	35,216	2,615	7.4%
Less: Adjustments ⁽²⁾	2,445	2,155	290	13.5%
Adjusted cost of gaming operations	35,386	33,061	2,325	7.0%
Cost of equipment sales	45,264	39,627	5,637	14.2%
Selling, general and administrative	53,785	55,933	(2,148)	(3.8)%
Less: Adjustments ⁽³⁾	8,179	13,751	(5,572)	(40.5)%
Adjusted cost of selling, general and administrative	45,606	42,182	3,424	8.1%
Research and development	28,702	26,018	2,684	10.3%
Less: Adjustments ⁽⁴⁾	3,656	2,682	974	36.3%
Adjusted cost of research and development	25,046	23,336	1,710	7.3%
Accretion of placement fees	6,378	4,552	1,826	40.1%
EGM adjusted EBITDA	\$ 144,718	\$ 137,371	\$ 7,347	5.3%
EGM unit information:				
VLT	512	797	(285)	(35.8)%
Class II	12,415	11,790	625	5.3%
Class III	5,441	3,709	1,732	46.7%
Domestic installed base, end of period	18,368	16,296	2,072	12.7%
International installed base, end of period	8,497	8,351	146	1.7%
Total installed base, end of period	26,865	24,647	2,218	9.0%
Domestic revenue per day	\$ 25.65	\$ 27.02	(1.37)	(5.1)%
International revenue per day	\$ 8.13	\$ 8.41	(0.28)	(3.3)%
Total revenue per day	\$ 20.10	\$ 20.96	(0.86)	(4.1)%
Domestic EGM units Sold	4,600	4,341	259	6.0%
Total EGM units Sold	4,879	4,387	492	11.2%
Domestic average sales price	\$ 18,302	\$ 18,383	(81)	(0.4)%

(1) Exclusive of depreciation and amortization.

(2) Adjustments to cost of gaming operation include non-cash stock compensation expense, non-cash charges on capitalized installation and delivery and other adjustments.

(3) Adjustments to selling, general and administrative expense include non-cash stock compensation expense, acquisitions and integration related costs including restructuring and severance, initial public offering costs and secondary offering costs, legal and litigation expenses including settlement payments and other adjustments.

(4) Adjustments to research and development costs include non-cash stock compensation expense and acquisitions and integration related costs including restructuring and severance.

Gaming Operations Revenue

The increase in gaming operations revenue was primarily due to the increase in our EGM installed base of 2,072 domestic units, which is primarily attributable to the purchase of approximately 2,500 EGMs from Integrity in February 2019, as described in Item 15. "Exhibits and Financial Statement Schedules." Note 2 to our consolidated financial statements. The increase is also attributable to the continued success of our *ICON* cabinet and the popularity of our *Orion Portrait* cabinet that have that have increased our installed base, offset by the strategic removal of approximately 500 EGMs in July of the prior year at one casino as well as the sale of 700 units of previously leased VLT EGMs. In addition, the increase is also attributed to the increase of 146 international EGM units, due to the expansion of our market share in underserved markets within Mexico and our initial entry to the Philippines. These increases were offset by a decrease in total revenue per day, which was caused by various factors, such as new installations in markets with lower revenue per day, as well as the inclusion of EGMs from Integrity, which historically generated revenue per day lower than the Company's average.

Equipment Sales

The increase in equipment sales is due to the sale of 4,879 EGM units in the year ended December 31, 2019, compared to 4,387 EGM units in the prior year period. The increase in the number of units sold is primarily attributable to the success of our new *Orion Portrait* cabinet and our growth in the Class III market as well as the launch of our *Orion Upright* cabinet. To a lesser extent, the increase is attributable to the sale in the current year of 327 previously leased, lower yielding units to a distributor.

EGM Adjusted EBITDA

EGM adjusted EBITDA includes the revenues and operating expenses from the EGM segment adjusted for depreciation, amortization, write-downs and other charges, accretion of placement fees, as well as other costs. See Item 15. "Exhibits and Financial Statement Schedules." Note 14 for further explanation of adjustments. The increase in EGM adjusted EBITDA is attributable to the increases in revenue described above offset by increased adjusted costs of gaming operations due to an increased installed base compared to the prior period, increased selling, general and administrative expenses and research and development expenses driven by the increase in salaries and benefit costs due to increased headcount and other operating expenses. The increase in revenue was further offset by increased cost of equipment sales due to higher sales volume compared to the prior period. EGM adjusted EBITDA margin was 50.0% and 50.7% for the year ended December 31, 2019 and 2018, respectively. The decrease in adjusted EBITDA margin is attributable to the increased proportion of equipment sales as part of total revenues, increased service costs and increased operating costs.

Table Products

Year Ended December 31, 2019 compared to Year Ended December 31, 2018

(amounts in thousands except unit data)	Year Ended December 31,		\$	%
	2019	2018	Change	Change
Table Products segment revenues:				
Gaming operations	\$ 9,555	\$ 7,377	\$ 2,178	29.5%
Equipment sales	639	274	365	133.2%
Total Table Products revenues	\$ 10,194	\$ 7,651	\$ 2,543	33.2%
Table Products segment expenses and adjusted expenses:				
Cost of gaming operations⁽¹⁾	1,632	1,991	(359)	(18.0)%
Less: Adjustments ⁽²⁾	537	84	453	N/A
Adjusted cost of gaming operations	1,095	1,907	(812)	(42.6)%
Cost of equipment sales	249	43	206	479.1%
Selling, general and administrative	2,537	2,577	(40)	(1.6)%
Less: Adjustments ⁽³⁾	163	431	(268)	(62.2)%
Adjusted cost of selling, general and administrative	2,374	2,146	228	10.6%
Research and development	2,988	3,113	(125)	(4.0)%
Less: Adjustments ⁽⁴⁾	211	500	(289)	(57.8)%
Adjusted cost of research and development	2,777	2,613	164	6.3%
Table Products adjusted EBITDA	\$ 3,699	\$ 942	\$ 2,757	292.7%
Table Products unit information:				
Table products installed base, end of period	3,766	3,162	604	19.1%
Average monthly lease price	\$ 230	\$ 218	\$ 12	5.5%

(1) Exclusive of depreciation and amortization.

(2) Adjustments to cost of gaming operation include non-cash stock compensation expense and non-cash charges on capitalized installation and delivery.

(3) Adjustments to selling, general and administrative expense include non-cash stock compensation expense, acquisitions and integration related costs including restructuring and severance, initial public offering costs and secondary offering costs, legal and litigation expenses including settlement payments and other adjustments.

(4) Adjustments to research and development costs include non-cash stock compensation expense and acquisitions and integration related costs

including restructuring and severance.

Gaming Operations Revenue

The increase in gaming operations revenue is attributable to the increase in the Table Products installed base to 3,766 units compared to 3,162 units in the prior year period and to a lesser extent, an increase in average monthly lease price due to the mix of products on lease compared to the prior year period. The success of our progressives such as *Super 4*, *Black Jack Match*, *Royal 9* as well as the success of the *Dex S*, are the primary drivers of the increase in the Table Products revenue and installed base compared to the prior year period.

Equipment Sales

The increase in equipment sales is due to the initial sales of our shuffler, *Dex S* and sales of our table signage.

Tables Products Adjusted EBITDA

Table Products adjusted EBITDA includes the revenues and operating expenses from the Table Products segment adjusted for depreciation, amortization, write-downs and other charges, as well as other costs. See Item 15. "Exhibits and Financial Statement Schedules." Note 14 for further explanation of adjustments. The increase in Table Products adjusted EBITDA is attributable to the increases in revenue described above and decreased adjusted cost of gaming operations primarily due to conversions of progressive games from third party hardware that were paid for in the prior year to our new internally developed *STAX* progressive, offset by the increase in research and development costs and adjusted selling, general and administrative costs due to higher headcount and new product development expenses.

Interactive

Year Ended December 31, 2019 compared to Year Ended December, 2018

(amounts in thousands)	Year Ended December 31,		\$	%
	2019	2018	Change	Change
Interactive segment revenue:				
Gaming operations	\$ 4,878	\$ 6,623	\$ (1,745)	(26.3)%
Total Interactive revenue	\$ 4,878	\$ 6,623	\$ (1,745)	(26.3)%
Interactive segment expenses and adjusted expenses:				
Cost of gaming operations⁽¹⁾	1,492	2,061	(569)	(27.6)%
Selling, general and administrative	5,463	4,528	935	20.6%
Less: Adjustments ⁽²⁾	2,244	418	1,826	N/A
Adjusted cost of selling, general and administrative	3,219	4,110	(891)	(21.7)%
Research and development	2,648	2,614	34	1.3%
Less: Adjustments ⁽³⁾	126	55	71	129.1%
Adjusted cost of research and development	2,522	2,559	(37)	(1.4)%
Interactive adjusted EBITDA	\$ (2,355)	\$ (2,107)	\$ (248)	11.8%

(1) Exclusive of depreciation and amortization.

(2) Adjustments to selling, general and administrative expense include non-cash stock compensation expense, acquisitions and integration related costs including restructuring and severance, legal and litigation expenses including settlement payments and other adjustments.

(3) Adjustments to research and development costs include non-cash stock compensation expense and acquisitions and integration related costs including restructuring and severance.

Gaming Operations Revenue

Because of our optimization strategy, interactive gaming operations revenue decreased compared to the prior year period due to the decrease in our social gaming revenues. These decreases were offset by an increase of \$1.1 million in RMG revenue in the current period from our acquisition of AGS iGaming. We have launched our land-based content on the AGS iGaming platform in the current year which has contributed to the growth of revenue in this product segment.

Interactive Adjusted EBITDA

Interactive adjusted EBITDA includes the revenues and operating expenses from the interactive segment adjusted for depreciation, amortization, write-downs and other charges, as well as other costs. See Item 15. "Exhibits and Financial Statement Schedules." Note 14 for further explanation of adjustments. The decrease in interactive adjusted EBITDA is attributable to a decrease in revenues, as described above, as well as approximately \$2.9 million of additional operating costs incurred by AGS iGaming offset by a decrease in user acquisition fees and platform fees associated with our Social interactive business.

Total Adjusted EBITDA

The following tables provide reconciliations of segment financial information to our consolidated statement of operations and to total adjusted EBITDA. We have included revenues, operating expenses and other adjustments by segment which we believe are important to understanding the operating results of our segment (amounts in thousands):

	Year Ended December 31, 2019			
	EGM	Table Products	Interactive	Total
Revenues				
Gaming operations	\$ 196,101	\$ 9,555	\$ 4,878	\$ 210,534
Equipment sales	93,541	639	—	\$ 94,180
Total revenues	289,642	10,194	4,878	304,714
Cost of gaming operations ⁽¹⁾	37,831	1,632	1,492	40,955
Cost of equipment sales ⁽¹⁾	45,264	249	—	45,513
Selling, general and administrative	53,785	2,537	5,463	61,785
Research and development	28,702	2,988	2,648	34,338
Write-downs and other charges	2,103	—	4,809	6,912
Depreciation and amortization	86,899	3,875	700	91,474
Total operating expenses	254,584	11,281	15,112	280,977
Write-downs and other				
Loss on disposal of long lived assets	1,068	—	—	1,068
Impairment of long lived assets	534	—	4,809	5,343
Fair value adjustments to contingent consideration and other items	501	—	—	501
Depreciation and amortization	86,899	3,875	700	91,474
Accretion of placement fees ⁽²⁾	6,378	—	—	6,378
Non-cash stock-based compensation expense ⁽³⁾	8,378	367	256	9,001
Acquisitions and integration related costs including restructuring and severance ⁽⁴⁾	2,900	—	438	3,338
Initial public offering and secondary offering ⁽⁵⁾	530	—	—	530
Legal and litigation expenses including settlement payments ⁽⁶⁾	234	—	1,610	1,844
Non-cash charge on capitalized installation and delivery ⁽⁷⁾	2,149	551	—	2,700
Other adjustments ⁽⁸⁾	89	(7)	66	148
Adjusted EBITDA	\$ 144,718	\$ 3,699	\$ (2,355)	\$ 146,062

(1) Exclusive of depreciation and amortization.

(2) Non-cash items related to the accretion of contract rights under development agreements and placement fees.

(3) Non-cash stock-based compensation includes non-cash compensation expense related to grants of options, restricted stock, and other equity awards.

(4) Acquisitions and integration related costs primarily relate to costs incurred after the purchase of businesses, such as the purchase of AGS iGaming and Integrity, to integrate operations and obtain costs synergies. Restructuring and severance costs primarily relate to costs incurred through the restructuring of the Company's operations from time to time and other employee severance costs recognized in the periods presented.

(5) Costs incurred related to initial public offering and secondary public offerings, net of costs capitalized to equity and the filing of the related offerings.

(6) Legal and litigation related costs consist of payments to law firms and settlements for matters that are outside the normal course of business.

(7) Non-cash charges on capitalized installation and delivery primarily include the costs to acquire contracts that are expensed over the estimated life of each contract.

(8) Other adjustments are primarily composed of professional fees incurred by the Company for projects, corporate and public filing compliance, contract cancellation fees, and other costs deemed to be non-operating in nature.

	Year Ended December 31, 2018			
	Table			Total
	EGM	Products	Interactive	
Revenues				
Gaming operations	\$ 187,809	\$ 7,377	\$ 6,623	\$ 201,809
Equipment sales	83,216	274	—	83,490
Total revenues	271,025	7,651	6,623	285,299
Cost of gaming operations ⁽¹⁾	35,216	1,991	2,061	39,268
Cost of equipment sales ⁽¹⁾	39,627	43	—	39,670
Selling, general and administrative	55,933	2,577	4,528	63,038
Research and development	26,018	3,113	2,614	31,745
Write-downs and other charges	3,925	—	4,828	8,753
Depreciation and amortization	73,871	2,707	957	77,535
Total operating expenses	234,590	10,431	14,988	260,009
Write-downs and other				
Loss on disposal of long lived assets	1,963	—	—	1,963
Impairment of long lived assets	1,261	—	4,828	6,089
Fair value adjustments to contingent consideration and other items	701	—	—	701
Depreciation and amortization	73,871	2,707	957	77,535
Accretion of placement fees ⁽²⁾	4,552	—	—	4,552
Non-cash stock-based compensation expense ⁽³⁾	9,810	929	194	10,933
Acquisitions and integration related costs including restructuring and severance ⁽⁴⁾	3,500	—	144	3,644
Initial public offering and secondary offering ⁽⁵⁾	2,426	2	—	2,428
Legal and litigation expenses including settlement payments ⁽⁶⁾	857	—	135	992
Non-cash charge on capitalized installation and delivery ⁽⁷⁾	1,997	84	—	2,081
Other adjustments ⁽⁸⁾	(2)	—	—	(2)
Adjusted EBITDA	\$ 137,371	\$ 942	\$ (2,107)	\$ 136,206

(1) Exclusive of depreciation and amortization.

(2) Non-cash items related to the accretion of contract rights under development agreements and placement fees.

(3) Non-cash stock-based compensation includes non-cash compensation expense related to grants of options, restricted stock, and other equity awards.

(4) Acquisitions and integration related costs primarily relate to costs incurred after the purchase of businesses, such as the purchase of AGS iGaming, to integrate operations and obtain costs synergies. Restructuring and severance costs primarily relate to costs incurred through the restructuring of the Company's operations from time to time and other employee severance costs recognized in the periods presented.

(5) Costs incurred related to initial public offering, net of costs capitalized to equity and the filing of the related offerings.

(6) Legal and litigation related costs consist of payments to law firms and settlements for matters that are outside the normal course of business.

(7) Non-cash charges on capitalized installation and delivery primarily include the costs to acquire contracts that are expensed over the estimated life of each contract.

(8) Other adjustments are primarily composed of professional fees incurred by the Company for projects, corporate and public filing compliance, contract cancellation fees, and other costs deemed to be non-operating in nature.

We have provided total adjusted EBITDA in this Form 10-K because we believe such measure provides investors with additional information to measure our performance.

We believe that the presentation of total adjusted EBITDA is appropriate to provide additional information to investors about certain material non-cash items that we do not expect to continue at the same level in the future, as well as other items we do not consider indicative of our ongoing operating performance. Further, we believe total adjusted EBITDA provides a meaningful measure of operating profitability because we use it for evaluating our business performance, making budgeting decisions, and comparing our performance against that of other peer companies using similar measures. It also provides management and investors with additional information to estimate our value.

Total adjusted EBITDA is not a presentation made in accordance with GAAP. Our use of the term total adjusted EBITDA may vary from others in our industry. Total adjusted EBITDA should not be considered as an alternative to operating income or net income. Total adjusted EBITDA has important limitations as an analytical tool, and you should not consider it in isolation or as a substitute for the analysis of our results as reported under GAAP.

Our definition of adjusted EBITDA allows us to add back certain non-cash charges that are deducted in calculating net income and to deduct certain gains that are included in calculating net income. However, these expenses and gains vary greatly, and are difficult to predict. They can represent the effect of long-term strategies as opposed to short-term results. In addition, in the case of charges or expenses, these items can represent the reduction of cash that could be used for other corporate purposes.

Due to these limitations, we rely primarily on our GAAP results, such as net (loss) income, income from operations, EGM Adjusted EBITDA, Table Products Adjusted EBITDA or interactive Adjusted EBITDA and use Total adjusted EBITDA only supplementally.

The following tables reconcile net loss attributable to PlayAGS, Inc. to total adjusted EBITDA (amounts in thousands):

Year Ended December 31, 2019 compared to the Year Ended December 31, 2018

	Year Ended December 31,		\$	%
	2019	2018	Change	Change
Net loss attributable to PlayAGS, Inc.	\$ (11,752)	\$ (20,846)	\$ 9,094	(43.6)%
Income (benefit) tax expense	(5,449)	(8,377)	2,928	(35.0)%
Depreciation and amortization	91,474	77,535	13,939	18.0%
Other expense (income)	4,622	10,488	(5,866)	(55.9)%
Interest income	(163)	(207)	44	(21.3)%
Interest expense	36,248	37,607	(1,359)	(3.6)%
Write-downs and other ⁽¹⁾	6,912	8,753	(1,841)	(21.0)%
Loss on extinguishment and modification of debt ⁽²⁾	—	6,625	(6,625)	(100.0)%
Other adjustments ⁽³⁾	909	2,426	(1,517)	(62.5)%
Other non-cash charges ⁽⁴⁾	9,078	6,633	2,445	36.9%
Legal and litigation expenses including settlement payments ⁽⁵⁾	1,844	992	852	85.9%
Acquisitions and integration related costs including restructuring and severance ⁽⁶⁾	3,338	3,644	(306)	(8.4)%
Non-cash stock-based compensation ⁽⁷⁾	9,001	10,933	(1,932)	(17.7)%
Total Adjusted EBITDA	\$ 146,062	\$ 136,206	\$ 9,856	7.2%

(1) Write-downs and other include items related to loss on disposal or impairment of long-lived assets and fair value adjustments to contingent consideration.

(2) Loss on extinguishment and modification of debt primarily relates to the refinancing of long-term debt, in which deferred loan costs and discounts related to old senior secured credit facilities were written-off.

(3) Other adjustments are primarily composed of professional fees incurred for projects, corporate and public filing compliance, contract cancellation fees and other transaction costs deemed to be non-operating in nature.

(4) Other non-cash charges are costs related to non-cash charges and losses on the disposition of assets, non-cash charges on capitalized installation and delivery, which primarily includes the costs to acquire contracts that are expensed over the estimated life of each contract and non-cash charges related to accretion of contract rights under development agreements.

(5) Legal and litigation related costs consist of payments to law firms and settlements for matters that are outside the normal course of business.

(6) Acquisitions and integration related costs primarily relate to costs incurred after the purchase of businesses, such as the purchase of AGS iGaming and Integrity, to integrate operations and obtain costs synergies. Restructuring and severance costs primarily relate to costs incurred through the restructuring of the Company's operations from time to time and other employee severance costs recognized in the periods presented.

(7) Non-cash stock-based compensation includes non-cash compensation expense related to grants of options, restricted stock, and other equity awards.

Liquidity and Capital Resources

We expect that primary ongoing liquidity requirements for the year ending December 31, 2020 will be for operating capital expenditures, working capital, debt servicing, game development and other customer acquisition activities.

Part of our overall strategy includes consideration of expansion opportunities, underserved markets and acquisition and other strategic opportunities that may arise periodically. We may require additional funds in order to execute on such strategic growth, and may incur additional debt or issue additional equity to finance any such transactions. We cannot assure you that we will be able to obtain such debt or issue any such additional equity on acceptable terms or at all.

As of December 31, 2019, we had \$13.2 million in cash and cash equivalents and \$30.0 million available under our revolving credit facility. Based on our current business plan, we believe that our existing cash balances, cash generated from operations and availability under the revolving credit facility will be sufficient to meet our anticipated cash needs for at least the next twelve months. As of December 31, 2019, we were in compliance with the required covenants of our debt instruments, including the maximum net first lien leverage ratio, which was 3.4 to 1.0 out of a maximum of 6.0 to 1.0. However, our future cash requirements could be higher than we currently expect as a result of various factors. Our ability to meet our liquidity needs could be adversely affected if we suffer adverse results of operations including a reduction of customer revenues through unfavorable contract negotiations or loss of a customer contract, or if we violate the covenants and restrictions to which we are subject under our debt instruments. Additionally, our ability to generate sufficient cash from our operating activities is subject to general economic, political, regulatory, financial, competitive, adverse legal decisions and other factors beyond our control. Our business may not generate sufficient cash flow from operations, and future borrowings may not be available to us under our existing credit facility in an amount sufficient to enable us to pay our service or repay our indebtedness or to fund our other liquidity needs, and we may be required to seek additional financing through credit facilities with other lenders or institutions or seek additional capital through private placements or public offerings of equity or debt securities.

Indebtedness

First Lien Credit Facilities

On June 6, 2017 (the "Closing Date"), AP Gaming I, LLC (the "Borrower"), a wholly owned indirect subsidiary of the Company, entered into a first lien credit agreement ("the First Lien Credit Agreement"), providing for \$450.0 million in term loans and a \$30.0 million revolving credit facility (the "First Lien Credit Facilities"). The proceeds of the term loans were used primarily to repay the Company's then existing term loans, other indebtedness, to pay for the fees and expenses incurred in connection with the foregoing and otherwise for general corporate purposes.

On December 6, 2017, the Borrower entered into incremental facilities for \$65.0 million in term loans (the "December Incremental Term Loans"). The net proceeds of the December Incremental Term Loans were used to finance the acquisition of electronic gaming machines and related assets operated by Rocket Gaming Systems ("Rocket") and to pay fees and expenses in connection therewith and for general corporate purposes.

An additional \$1.0 million in loan costs were incurred related to the issuance of the December Incremental Term Loans. Given the composition of the lender group, the transaction was accounted for as a debt modification and, as such, \$0.9 million in third-party costs were expensed and included in the loss on extinguishment and modification of debt. The remaining amount was capitalized and will be amortized over the term of the agreement.

On February 8, 2018, the Borrower completed the repricing of its existing \$513 million term loans under its First Lien Credit Agreement (the "Term Loans"). The Term Loans were repriced from 550 basis points to 425 basis points over LIBOR. The LIBOR floor remained at 100 basis points.

On February 8, 2018, in connection with the repricing of the Term Loans, third-party costs of \$1.2 million were expensed and included in the loss and modification of debt. Existing debt issuance costs of \$0.4 million were written-off and also included in the loss on extinguishment and modification of debt.

On October 5, 2018, the Borrower entered into an Incremental Assumption and Amendment Agreement No. 2 (the "Incremental Agreement No. 2") with certain of the Borrower's subsidiaries, the lenders party thereto from time to time and the Administrative Agent. The Incremental Agreement No. 2 amended and restated that certain First Lien Credit Agreement, dated as of June 6, 2017, as amended on December 6, 2017 and as amended and restated on February 8, 2018 (the "Existing Credit Agreement"), among the Borrower, the lenders party thereto, the Administrative Agent and other parties named therein (the "Amended and Restated Credit Agreement"), to (a) reduce the applicable interest rate margin for the Term B Loans (as repriced, the "Repriced Term B Loans") under the Credit Agreement by 0.75% (which shall increase by an additional 0.25% if at any time the Borrower receives a corporate credit rating of at least B1 from Moody's, regardless of any future rating) and (b) provide for the incurrence by the Borrower of incremental term loans in an aggregate principal amount of \$30 million (the "Incremental Term Loans" and together with the Repriced Term B Loans, the "Term B Loans").

On October 5, 2018, in connection with the repricing of the Term Loans, third-party costs of \$1.5 million were expensed and included in the loss on extinguishment and modification of debt.

On August 30, 2019, the Borrower entered into Amendment No. 3 (the "Repricing Amendment") to the Amended and Restated Credit Agreement. The Repricing Amendment reduced the interest rate margin on the revolving credit facility to the same interest rate margin as the Term Loans issued under the Amended and Restated Credit Agreement.

The Term B Loans described above, will mature on February 15, 2024, and the revolving credit facility will mature on June 6, 2022. Starting with the first full quarter after the Closing Date, the Term B Loans require scheduled quarterly payments in amounts equal to 0.25% of the original aggregate principal amount of the Term B Loans, with the balance due at maturity. Borrowings under the Term B Loans bear interest at a rate equal to, at the Borrower's option, either LIBOR or the base rate, subject to an interest rate floor plus an applicable margin rate. Borrowings under the revolving credit facility bear interest at a rate equal to, at the Borrower's option, either LIBOR or the base rate plus an applicable margin rate. In addition, on a quarterly basis, the Borrower is required to pay each lender under the revolving credit facility a commitment fee in respect of any unused commitments thereunder at a rate of 0.50% per annum.

The First Lien Credit Facilities are guaranteed by AP Gaming Holdings, LLC, the Borrower's material, wholly owned domestic subsidiaries (subject to certain exceptions), and are secured by a pledge by AP Gaming Holdings, LLC of the Borrower's equity interest directly held by AP Gaming Holdings, LLC and a pledge of substantially all of the existing and future property and assets of the Borrower and the subsidiary guarantors, subject to certain exceptions. The First Lien Credit Facilities require that the Borrower maintain a maximum net first lien leverage ratio set at a maximum of 6.0 to 1.0.

The First Lien Credit Facilities also contain customary affirmative covenants and negative covenants that limit our ability to, among other things: (i) incur additional debt or issue certain preferred shares; (ii) create liens on certain assets; (iii) make certain loans or investments (including acquisitions); (iv) pay dividends on or make distributions in respect of our capital stock or make other restricted payments; (v) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; (vi) sell assets; (vii) enter into certain transactions with our affiliates; (viii) enter into sale-

leaseback transactions; (ix) change our lines of business; (x) restrict dividends from our subsidiaries or restrict liens; (xi) change our fiscal year; and (xii) modify the terms of certain debt or organizational agreements. The new senior secured credit facilities also contain customary events of default included in similar financing transactions, including, among others, failure to make payments when due, default under other material indebtedness, breach of covenants, breach of representations and warranties, involuntary or voluntary bankruptcy, and material judgments.

As of December 31, 2019, we were in compliance with the required covenants of the Amended and Restated Credit Agreement.

Equipment Long Term Note Payable and Finance Leases

The Company has entered into a financing agreement to purchase certain gaming devices, systems and related equipment and has entered into leases for vehicles that are accounted for as finance leases, as described in Item 15. "Exhibits and Financial Statement Schedules" Note 6.

The following table summarizes our historical cash flows (in thousands):

	Year ended December 31,		
	2019	2018	2017
Cash Flow Information:			
Net cash provided by operating activities	\$ 87,989	\$ 45,511	\$ 44,008
Net cash used in investing activities	(127,932)	(70,114)	(120,811)
Net cash (used in) provided by financing activities	(17,683)	76,066	78,054
Effect of exchange rates on cash and cash equivalents	4	(1)	14
(Decrease) increase in cash and cash equivalents	<u>\$ (57,622)</u>	<u>\$ 51,462</u>	<u>\$ 1,265</u>

Operating activities

Net cash provided by operating activities for the year ended December 31, 2019, was \$88.0 million compared to \$45.5 million provided in the prior year period, representing an increase of \$42.5 million. This increase is primarily due to interest paid in the prior period in the amount of \$37.6 million from the redemption of the senior secured PIK notes, improvement in our net loss adjusted for non-cash expenses of \$17.3 million and less cash used related to assets and liabilities that relate to operations.

Investing activities

Net cash used in investing activities for the year ended December 31, 2019 was \$127.9 million compared to \$70.1 million used in investing activities in the prior year period, representing an increase in cash used of \$57.8 million. The increase was primarily due to an increase in cash used in business acquisitions, net of cash acquired, of \$50.5 million. In the current year, we acquired Integrity and In Bet II, as described in Item 15. "Exhibits and Financial Statement Schedules." Note 2. Cash used in investing activities increased also due to an increase in the purchase of intangibles and software development of \$9.1 million.

Financing activities

Net cash used in financing activities for the year ended December 31, 2019, was \$17.7 million compared to net cash provided by financing activities of \$76.1 million for the year ended December 31, 2018, representing an decrease in cash of \$93.8 million. The decrease was primarily due to prior year activity that included \$176.3 million of net proceeds that were received from the initial public offering, after deducting underwriting discounts and commissions of \$4.2 million initial public offering costs. We also issued incremental term loans in the prior year for proceeds of \$29.9 million. The net proceeds from the initial public offering were used to repay the principal amount of our 11.25% senior secured PIK notes of \$115.0 million in the prior period.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Significant Accounting Policies and Critical Estimates

Critical Accounting Estimates

Our consolidated financial statements are prepared in conformity with generally accepted accounting principles ("GAAP") generally accepted in the United States of America. Accordingly, we are required to make estimates incorporating judgments and assumptions we believe are reasonable based on our historical experience, contract terms, 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 our consolidated financial statements and there can be no assurance that actual results will not differ from initial estimates. Changes in future economic conditions or other business circumstances may affect the outcomes of our estimates and assumptions. Our accounting policies are more fully described in Item 15. "Exhibits and Financial Statement Schedules." Note 1. to the consolidated financial statements, Description of Business and Summary of Significant Accounting Policies.

We consider the following accounting policies to be the most important to understanding and evaluating our financial results. These policies require management to make subjective and complex judgments that are inherently uncertain or variable.

Management considers an accounting estimate to be critical if:

- It requires assumptions to be made that were uncertain at the time the estimate was made, and
- Changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operation or financial condition.

Business Combinations

We apply the provisions of ASC 805, Business Combinations, in the accounting for business acquisitions, such as the acquisitions of In Bet II, Integrity, and AGS iGaming. We recognize separately from goodwill the assets acquired and the liabilities assumed, at their acquisition date fair values and goodwill is defined as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. Significant estimates and assumptions are required to value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable. The valuations relating to the acquisitions of In Bet II, Integrity, and AGS iGaming included significant estimates in the valuation of intangible assets that included trade names, brand names, customer relationships, and gaming software and technology platforms. These estimates are inherently uncertain and subject to refinement and typically include the calculation of an appropriate discount rate (Assumption #1) and projection of the cash flows (Assumption #2) associated with each acquired asset. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. In addition, deferred tax assets, deferred tax liabilities, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly based upon facts and circumstances that existed as of the acquisition date and any adjustments to its preliminary estimates are recorded to goodwill if identified within the measurement period. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Assumptions/Approach used for Assumption #1: Fair value of identifiable tangible and intangible assets is based upon forecasted revenues and cash flows as well as the selected discount rate. In determining the appropriate discount rate, we incorporate assumptions regarding capital structure and return on equity and debt capital consistent with peer and industry companies.

Effect if Different Assumptions used for Assumption #1: Valuation of identifiable tangible and intangible assets requires judgment, including the selection of an appropriate discount rate. While we believe our estimates used to select an appropriate discount rate are reasonable, different assumptions could materially affect the measurement of fair value. The acquisitions of In Bet, Integrity, and AGS iGaming as well as historical acquisitions of the Company, have contained significant amounts of intangible assets and goodwill and a change in the discount rates used in the valuations of intangible assets in these acquisitions could have resulted in a change to intangible assets with an offsetting impact to goodwill.

Assumptions/Approach used for Assumption #2: Fair value of identifiable tangible and intangible assets is based upon forecasted revenues and cash flows. In developing estimated cash flows, we incorporate assumptions regarding future performance, including estimations of revenues, costs, and capital expenditures.

Effect if Different Assumptions used for Assumption #2: Valuation of identifiable tangible and intangible assets requires judgment, including estimations of cash flows, and determinations of fair value. In the Company's valuation of intangible assets, we allocated the estimated cash flows of each business acquisition to the several individual intangible assets. While we believe our estimates of future cash flows are reasonable, different assumptions could materially affect the measurement of fair value. A change in the total estimated cash flows as well as the allocation of those cash flows to each intangible asset could have resulted in a change to the value assigned to intangible assets with an offsetting impact to goodwill.

Revenue Recognition

We evaluate the recognition of revenue based on the criteria set forth in the accounting guidance as more fully described in Item 15. "Exhibits and Financial Statement Schedules." Note 1 to the consolidated financial statements, which contains a description of our revenue recognition policy for our revenue streams.

For the sale of gaming machines recorded in equipment sales revenue, judgment is often required to determine whether an arrangement consists of multiple performance obligations, which are typically multiple distinct products that may be shipped to the customer at different times. For example, gaming equipment arrangements may include the sale of gaming machines to be delivered upon the consummation of the contract and additional game content conversion kits that will be delivered at a later date when requested by the customer to replace the game content on the customer's existing gaming machines. Products are identified as separate performance obligations if they are distinct, which occurs if the customer can benefit from the product on its own and is separately identifiable from other promises in the contract. Revenue is allocated to the separate performance obligations based on relative standalone selling prices determined at contract inception. Standalone selling prices are primarily determined by prices that we charge for the products when they are sold separately. When a product is not sold separately, we determine the standalone selling price with reference to our standard pricing policies and practices.

Judgment is required to determine whether there is sufficient history to prove when it is probable that we will collect substantially all of the contracted amount. Factors that we consider include the nature of our customers, our historical collection experience with the specific customer, the terms of the arrangement and the nature of the product being sold. Our product sales contracts do not include specific performance, cancellation, termination or refund-type provisions.

Equipment Leases

Gaming operations revenue is earned by providing customers with gaming machines, gaming machine content licenses, back-office equipment and linked progressive systems, which are collectively referred to as gaming equipment, under participation arrangements. The participation arrangements convey the right to use the equipment (i.e. gaming machines and related integral software) for a stated period of time, which typically are no longer than one to three years and then the contract continues on a month-to-month basis thereafter. In some instances, the Company will enter arrangements for longer periods of time; however, many of these arrangements include the ability of the customer to cancel the contract and return the games to the Company, a provision which renders the contracts effectively month-to-month contracts. The Company will also enter into lease contracts with a revenue sharing arrangement whereby the lease payments due from the customer are variable. Primarily due to these factors, our participation arrangements are accounted for as operating leases.

The majority of the Company's leases require the Company to provide maintenance throughout the entire term of the lease. In some cases, a performance guarantee exists that, if not met, provides the customer with the right to return the gaming machines to the Company. This performance guarantee is considered a cancellation clause, a provision which renders their contracts effectively month-to-month contracts. Accordingly, the Company accounts for these contracts in a similar manner with its other operating leases as described above. Whether contractually required or not, the Company develops and provides new gaming titles throughout the life of the lease.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts related to our accounts and notes receivable deemed to have a high risk of collectability. We review our receivables on a monthly basis to determine if any receivables will potentially be uncollectible. We analyze historical collection trends and changes in our customers' payment patterns, customer concentration and credit worthiness when evaluating the adequacy of our allowance for doubtful accounts (Assumption #1). A large percentage of receivables are with Native American tribes that have their reservations and gaming operations in Oklahoma and Alabama as well as customers in Mexico, and we have concentrations of credit risk with several tribes. We include any receivable balances that are determined to be uncollectible in our overall allowance for doubtful accounts. Changes in our assumptions or estimates reflecting the collectability of certain accounts could materially affect our allowance for both trade and notes receivable.

Assumptions/Approach used for Assumption #1: We estimate our allowance for doubtful accounts based on historical collection trends, changes in our customers' payment patterns, customer concentration and credit worthiness.

Effect if Different Assumptions used for Assumption #1: Recording an allowance for doubtful accounts requires judgment. While we believe our estimates are reasonable, if actual cash collections fall below our expectations, we may need to record additional bad debt expense, which will increase our selling, general and administrative expense.

Inventories

Inventories consist primarily of parts and supplies that are used to repair and maintain machinery and equipment as well as EGMs in production and finished goods held for sale. Cost of inventories is determined using the first-in, first-out method for all components of inventory. We regularly review inventory quantities and update estimates for the net realizable value of inventories. This process includes examining the carrying values of parts and ancillary equipment in comparison to the current fair market values for such equipment (less costs to sell or dispose). Some of the factors involved in this analysis include the overall levels of the inventories, the current and projected sales levels for such products (Assumption #1), the projected markets for such products and the costs required to sell the products, including refurbishment costs. Changes in the assumptions or estimation could materially affect the inventory carrying value.

Assumptions/Approach used for Assumption #1: Our estimates of net realizable value of inventory take into account projected usage including lease and sales levels that will utilize the existing inventory to assist in determining the net realizable value of the inventory at a balance sheet date. If inventory has no projected usage, it is written down to current market values (less costs to sell and dispose).

Effect if Different Assumptions used for Assumption #1: Although we believe our estimate of inventory usage are reasonable, different assumptions could materially affect the inventories net realizable value. If actual inventory usage is lower than our projections, additional inventory write-downs may be required, which will be recorded as a reduction to inventories and additional expense to the cost of gaming operations.

Property and Equipment

The cost of property and equipment, consisting of gaming machines, file servers and other support equipment as well as leasehold improvements, office and other equipment, is depreciated over their estimated useful lives, using the straight-line method. Repairs and maintenance costs are expensed as incurred. We routinely evaluate the estimated lives used to depreciate assets (Assumption #1). Upon the occurrence of a triggering event, we measure recoverability of assets to be held and used by comparing the carrying amount of an asset to future cash flows expected to be generated by the asset (Assumption #2). Our policy is to impair, when necessary, excess or obsolete gaming terminals on hand that we do not expect to be used. Impairment is based upon several factors, including estimated forecast of gaming terminal demand for placement into casinos.

Assumptions/Approach used for Assumption #1: The carrying value of the asset is determined based upon management's assumptions as to the useful life of the asset, where the assets are depreciated over the estimated life on a straight-line basis.

Effect if different assumptions used for Assumption #1: While we believe the useful lives that we use are reasonable, different assumptions could materially affect the carrying value of property and equipment, net, as well as the depreciation and amortization expense.

Assumptions/Approach used for Assumption #2: When we identify a triggering event, we estimate cash flows directly associated with the use of the gaming equipment to test recoverability and remaining useful lives based upon forecasted product revenues and cash flows. In developing estimated cash flows, we incorporate assumptions regarding future performance, including estimations of win per day and estimated installed units on lease. When the carrying amount exceeds the undiscounted cash flows expected to result from the use and eventual disposition of the asset, we then compare the carrying amount to its current fair value. We recognize an impairment loss if the carrying amount of the asset exceeds its fair value.

Effect if Different Assumptions used for Assumption #2: Impairment testing requires judgment, including estimates of cash flows, and determinations of fair value. While we believe our estimates of future revenues and cash flows are reasonable, different assumptions such as projected win per day and projected installed units on lease could materially affect the measurement of the recoverability and fair value of property and equipment. If actual cash flows fall below initial forecasts, we may need to record additional amortization and/or impairment charges.

Valuation of Intangible Assets and Goodwill

We group our intangible assets at the lowest level for which there are identifiable cash flows. The nature of our intangible assets is primarily described as follows:

- Trade and brand names - intangible assets related to business and corporate trade names that were purchased in business acquisitions as well as the brand names of product franchise titles. This category includes both definite- and indefinite-lived intangible assets.
- Customer relationships – intangible assets that represent primarily the value that has been assigned to customer relationships as a result of business acquisitions.
- Contract rights under development and placement fees - intangible assets that relate to our purchase of the right to secure floor space from our customers under lease agreements for our gaming machines and to a lesser extent we record intangible assets from the discounts on development notes receivable loans that have been extended to customers at interest rates that are deemed below market in exchange for a fixed number of gaming terminal placements in the customer's facility.
- Gaming software and technology platforms – these intangible assets represent software development costs that are capitalized once technological feasibility has been established and are amortized when the software is placed into service. Any subsequent software maintenance costs, such as bug fixes and subsequent testing, are expensed as incurred. Discontinued software development costs are expensed when the determination to discontinue is made. This category also includes the game content libraries and technology platforms that were purchased as part of business acquisitions.
- Intellectual property – these intangible assets represent the platform and titles acquired through business acquisitions and standalone purchases of patents and related technology.

Definite-lived Intangible Asset Impairment

The Company reviews its definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. These indicators can include the loss of a key customer or jurisdiction or cancellation of a specific product line where there is no alternative future use for the intangible asset.

When the estimated undiscounted cash flows are not sufficient to recover the intangible asset's carrying amount, an impairment loss is measured to the extent the fair value of the asset is less than its carrying amount. There were no events or circumstances noted in the year ended December 31, 2019 that indicated that the carrying amount of definite-lived intangible assets may not be recoverable other than those described in Item 15. "Exhibits and Financial Statement Schedules." Note 8 to our audited financial statements contained elsewhere herein.

Indefinite-lived Intangible Asset Impairment

The "American Gaming Systems" trade name (and related derivations such as "AGS" and "PlayAGS") asset acquired in a previous acquisition has an indefinite useful life. We do not amortize the indefinite lived trade name, but instead test for possible impairment at least annually or when circumstances warrant. For the trade name and any other indefinite-lived intangible asset we can perform a qualitative assessment to determine if it is more likely than not that the fair value of the asset is less than its carrying amount. If we believe, as a result of our qualitative assessment, that it is more likely than not that the fair value of the asset is less than its carrying amount, a quantitative impairment test is required. The quantitative test compares the fair value of the asset to its carrying amount and any excess carrying amount over the fair value is recorded as an impairment loss.

The Company performed a qualitative assessment to determine if it was more likely than not that the fair value of the trade name asset was less than its carrying amount as of the assessment date of October 1, 2019. In the assessment, we relied on several qualitative factors such as industry and macroeconomic conditions, as well as current projected cash flows and the prior year quantitative analysis, that concluded the excess fair value over carrying value for the trade name asset was \$86.1 million.

Costs of Capitalized Computer Software

Internally developed gaming software represents our internal costs to develop gaming titles to utilize on our gaming terminals. Internally developed gaming software is stated at cost, which is amortized over the estimated useful lives of the software, using the straight-line method. Software development costs are capitalized once technological feasibility has been established and are amortized when the software is placed into service. Generally, the computer software we develop reaches technological feasibility when a working model of the computer software is available. After the product is complete and commercialized, any software maintenance costs, such as bug fixes and subsequent testing, are expensed as incurred. Discontinued software development costs are expensed when the determination to discontinue is made. Software development costs are amortized over the expected life of the title or group of titles, if applicable, to amortization expense.

On a quarterly basis, or more frequently if circumstances warrant, we compare the net book value of our internally developed computer software to the net realizable value on a title or group of titles basis. The net realizable value is determined based upon certain assumptions, including the expected future revenues and net cash flows of the gaming titles or group of gaming titles utilizing that software, if applicable (Assumption #1).

Assumptions/Approach used for Assumption #1: We estimate the revenues and net cash flows from our internally developed software intangible on a product by product basis to compare net book value to net realizable value. In developing estimated revenues and cash flows, we incorporate assumptions regarding future performance, including estimations of win per day and estimated units. When the carrying amount exceeds the net realizable value, the excess is written off.

Effect if Different Assumptions used for Assumption #1: Determining net realizable value requires judgment, including estimations of forecasted revenue and cash flows. While we believe our estimates of future revenues and cash flows are reasonable, different assumptions could materially

affect the measurement of net realizable value.

Goodwill

The excess of the purchase price of entities that are considered to be purchases of businesses over the estimated fair value of the assets acquired and the liabilities assumed is recorded as goodwill. Goodwill is reviewed for possible impairment annually on October 1 or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable (Assumption #1). The Company has the option to begin with a qualitative assessment, commonly referred to as Step 0, to determine whether it is more-likely-than-not that the reporting unit's fair value is less than its carrying value. This qualitative assessment may include, but is not limited to, reviewing factors such as the general economic environment, industry and market conditions, changes in key assumptions used since the most recently performed valuation and overall financial performance of the reporting units. If the Company determines the reporting unit is not at risk of failing the qualitative assessment no impairment testing is required. If the Company determines that it is at risk of failing the qualitative assessment, the Company is required to perform an annual goodwill impairment test, and depending upon the results of that measurement, the recorded goodwill may be written down and charged to results from operations when its carrying amount exceeds its estimated fair value.

Assumptions/Approach used for Assumption #1: In the first step of the goodwill impairment test, we estimate the fair value of our reporting units and compare that to the carrying value. Fair value is based upon forecasted product revenues and cash flows. In developing estimated cash flows, we incorporate assumptions regarding future performance, including estimations of revenues, costs, and capital expenditures. When the carrying amount exceeds fair value, we recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

Effect if Different Assumptions used for Assumption #1: Impairment testing requires judgment, including estimations of cash flows, and determinations of fair value. While we believe our estimates of future cash flows are reasonable, different assumptions could materially affect the measurement of fair value. If actual cash flows fall below initial forecasts, we may need to record additional impairment charges.

The Company performed a quantitative assessment as of October 1, 2019 on the EGM and Table Products reporting units, in which both reporting units passed the assessment with a significant cushion between the fair value and carrying value of the reporting unit. As of October 1, 2019, none of the Company's remaining reporting units had a recorded balance of goodwill.

During the second quarter of 2019 our RMG interactive reporting unit fell short of its expected operating results, driven by the delays launching new operators and extended regulatory timelines in new jurisdictions, which was considered to be a triggering event. Accordingly, we reduced the projections of the future operating results for this reporting unit, originally established when we acquired AGS iGaming in 2018. As a result of this triggering event, we performed a quantitative, or "Step 1" impairment analysis of the associated goodwill and determined that the entire balance of \$3.5 million was impaired. In performing the quantitative goodwill impairment test for our RMG interactive reporting unit, we estimated the fair value of the reporting unit using an income approach that analyzed projected discounted cash flows. We used projections of revenues and operating costs with estimated growth rates during the forecast period, capital expenditures and cash flows that considered historical and estimated future results and general economic and market conditions, as well as the estimated impact of planned business and operational strategies. The estimates and assumptions used in the discounted cash flow analysis included a terminal year long-term growth rate of 3.0% and an overall discount rate of 25% based on our weighted average cost of capital for the Company and premiums for the small size of the reporting unit and forecast risk.

In 2018, the interactive Social reporting unit had a goodwill carrying value of \$4.8 million. The Company performed a quantitative, or "Step 1" analysis in 2018, in which we determined the entire balance of goodwill was impaired. In performing the Step 1 goodwill impairment test for our Interactive Social reporting unit, we estimated the fair value of the Interactive Social reporting unit using an income approach that analyzed projected discounted cash flows. We used projections of revenues and operating costs with estimated growth rates during the forecast period, capital expenditures and cash flows that considered historical and estimated future results and general economic and market conditions, as well as the estimated impact of planned business and operational strategies. In the fourth quarter of the year ended December 31, 2018, during the annual budgeting process the Company decided to change its strategy with regard to marketing and user acquisition activities that drive its B2C Social offerings. The strategic decision to significantly cut spending in this area and to focus completely on the B2B Social business, was the primary reason for a reduction in the projected discounted cash flows that were used in the impairment test. The estimates and assumptions used in the discounted cash flow analysis included a terminal year long-term growth rate of 3.0% and an overall discount rate of 19% based on our weighted average cost of capital for the Company and premiums for the small size of the reporting unit and forecast risk.

Income Taxes

We conduct business globally and are subject to income taxes in U.S. federal, state, local, and foreign jurisdictions. Determination of the appropriate amount and classification of income taxes depends on several factors, including estimates of the timing and probability of realization of deferred income taxes, reserves for uncertain income tax positions and income tax payment timing.

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Taxes on income of our foreign subsidiaries are provided at the tax rates applicable to the tax jurisdictions in which they are located. Future tax benefits are recognized to the extent that realization of those benefits is considered more likely than not and a valuation allowance is established for deferred tax assets which do not meet this threshold.

The recoverability of certain deferred tax assets is based in part on estimates of future income and the timing of temporary differences, and the failure to fully realize such deferred tax assets could result in a higher tax provision in future periods.

We apply the accounting guidance to our uncertain tax positions and under the guidance, we may recognize a tax benefit from an uncertain position only if it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the issue. The amount recognized in the financial statements is the largest benefit that we believe has greater than a 50% likelihood of being realized upon settlement.

We are required to make significant judgments when evaluating our uncertain tax positions and the related tax benefits. We believe our assumptions are reasonable; however, there is no guarantee that the final outcome of the related matters will not differ from the amounts reflected in our income tax provisions and accruals. We adjust our liability for uncertain tax positions based on changes in facts and circumstances such as the closing of a tax audit or changes in estimates. Our income tax provision may be impacted to the extent that the final outcome of these tax positions is different than the amounts recorded.

Contingencies

We assess our exposures to loss contingencies, including claims and legal proceedings, and accrue a liability if a potential loss is considered probable and the amount can be estimated. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, if the actual loss from a contingency differs from our estimate, there could be a material impact on our results of operations or financial position. Operating expenses, including legal fees, associated with contingencies are expensed when incurred.

Recently adopted accounting pronouncements

For a description of recently adopted accounting pronouncements, see Item 15. "Exhibits and Financial Statement Schedules." Note 1, Summary of Significant Accounting Policies.

Recently issued accounting pronouncements not yet adopted

For a description of recently issued accounting pronouncements not yet adopted, see Item 15. "Exhibits and Financial Statement Schedules." Note 1 to the consolidated financial statements, Summary of Significant Accounting Policies.

Contractual Obligations

The following table contains information on our contractual obligations and commitments as of December 31, 2019 (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Long-term debt	533,727	6,038	11,751	515,938	—
Interest payments	113,562	28,026	55,046	30,490	—
Operating lease ⁽¹⁾	16,595	2,907	4,443	3,633	5,612
Other ⁽²⁾	41,658	7,789	15,270	14,791	3,808
Total	\$ 705,542	\$ 44,760	\$ 86,510	\$ 564,852	\$ 9,420

(1) Operating lease payments exclude \$14.3 million of legally binding minimum lease payments for leases signed but not commenced as of December 31, 2019. These payments are excluded from the table above due to uncertainty of the commencement date, which is the date on which payments will begin.

(2) "Other" includes placement fees payable, license fee agreement liabilities, contingent consideration to business combinations and other liabilities as described in Item 15. "Exhibits and Financial Statement Schedules." of our consolidated financial statements.

As of December 31, 2019, \$11.0 million of unrecognized tax benefits were not included in the table above. Due to the inherent uncertainty of the underlying tax positions, it is not practicable to assign this liability to any particular year.

Estimated interest payments on our debt as of December 31, 2019 are based on principal amounts outstanding, the stated interest rate as of December 31, 2019 and required principal payments through the maturity of the debt.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are subject to certain market risks and uncertainties inherent in our operations. These market risks generally arise from transactions in the normal course of business. Our primary market risk exposures relate to interest rate risk and foreign currency exchange risks.

Interest Rates

Our primary exposure to market risk is interest rate risk associated with our long-term debt, which accrues interest at variable rates. Certain of our debt instruments accrue interest at LIBOR or the base rate, at our election, subject to an interest rate floor plus an applicable margin rate. In the normal course of business, we are exposed to fluctuations in interest rates as we seek debt and equity capital to sustain our operations. All of our interest rate sensitive financial instruments are held for purposes other than trading purposes. As of December 31, 2019, approximately less than 1% of our debt were fixed-rate instruments. Assuming a constant outstanding balance for our variable-rate long term debt, a hypothetical 1% decrease in interest rates would decrease interest expense \$5.3 million given our LIBOR floor on related debt, while a hypothetical 1% increase in interest rates would increase interest expense approximately \$5.3 million.

Foreign Currency Risk

We are exposed to foreign currency exchange rate risk that is inherent to our foreign operations. We currently transact business in Mexico, and to a lesser extent in the United Kingdom, using the local currency. Our settlement of inter-company trade balances requires the exchange of currencies, which results in the recognition of foreign currency fluctuations. We expect that certain operations will continue to be denominated in foreign

currencies. As such, we expect our cash flows and earnings to continue to be exposed to the risks that may arise from fluctuations in foreign currency exchange rates.

We derived approximately 9% of our revenue from customers in Mexico. To date, we have not engaged in hedging activities intended to protect against foreign currency risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required by this item is contained in the financial statements listed in Item 15. "Exhibits and Financial Statement Schedules." of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act) as of December 31, 2019. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, our disclosure controls and procedures are effective to ensure information is recorded, processed, summarized and reported within the periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

In connection with the adoption of ASC 842, we assessed the impact and applied changes to our internal control over financial reporting to update additional control procedures to enable the preparation of our financial information. Except as previously noted, there were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended December 31, 2019 covered by this Annual Report on Form 10-K that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for an assessment of the effectiveness of internal control over financial reporting; as such items are defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance that our financial reporting and preparation of financial statements is reliable and in accordance with generally accepted accounting principles.

Our policies and procedures are designed to provide reasonable assurance that transactions are recorded and records maintained in reasonable detail as necessary to accurately and fairly reflect transactions and that all transactions are properly authorized by management in order to prevent or timely detect unauthorized transactions or misappropriation of assets that could have a material effect on our financial statements. Management is required to base its assessment on the effectiveness of our internal control over financial reporting on a suitable, recognized control framework. Management has utilized the criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to evaluate the effectiveness of internal control over financial reporting.

Our management has performed an assessment according to the 2013 Internal Control-Integrated Framework established by COSO. Based on the assessment, management has concluded that our system of internal control over financial reporting, as of December 31, 2019, is effective. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An attestation report of the Company's internal control over financial reporting by our independent registered public accounting firm is not included as we are an Emerging Growth Company and are exempt from the auditor attestation requirement of Section 404(b) of the Sarbanes-Oxley Act of 2002.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Set forth below are the names, ages, positions, and biographical information of the executive officers of AGS, LLC and the executive officers and directors of the Company at March 2, 2020.

AGS, LLC

Name	Age	Position
David Lopez	46	Chief Executive Officer
Kimo Akiona	46	Chief Financial Officer
Victor Gallo	53	General Counsel
Sigmund Lee	48	Chief Technology Officer

PlayAGS, Inc.

Name	Age	Position
David Lopez	46	Chief Executive Officer, President and Director
Kimo Akiona	46	Chief Financial Officer, Chief Accounting Officer and Treasurer
Victor Gallo	53	General Counsel, Secretary and Compliance Officer
Sigmund Lee	48	Chief Technology Officer
David Sambur	39	Director and Chairman
Daniel Cohen	32	Director
Yvette E. Landau	63	Director
Adam Chibib	53	Director
Geoff Freeman	45	Director
Anna Massion	41	Director

The following are brief biographies describing the backgrounds of the executive officers of AGS, LLC and the executive officers and directors of the Company.

David Lopez. Mr. Lopez has served as the Chief Executive Officer of AGS and Chief Executive Officer and President of the Company since February 3, 2014. Mr. Lopez has also served on the board of the Company since May 2017. Mr. Lopez most recently served as President and Chief Executive Officer of Global Cash Access, Inc. (now known as Everi Holdings, Inc.), which he joined in May 2012. Prior to his role at Global Cash Access, Inc., Mr. Lopez served as Chief Operating Officer of Shuffle Master Inc. from November 2010 until May 2012. Mr. Lopez joined Shuffle Master Inc. in February 1998 and held various positions within the organization during his 14-year tenure, including Interim CEO, Executive Vice President, President of the Americas, Vice President of Product Management, as well as serving as a member of its board of directors from November 2010 until May 2012. Mr. Lopez is a graduate of the University of Nevada, Las Vegas with a B.S. in Business Administration.

Kimo Akiona. Mr. Akiona serves as Chief Financial Officer of AGS and Chief Financial Officer, Chief Accounting Officer and Treasurer of the Company. Mr. Akiona was appointed to serve as Treasurer of the Company and Chief Financial Officer of AGS on February 23, 2015. Mr. Akiona, most recently served as Senior Vice President and Corporate Controller of SHFL entertainment, Inc. and Bally Technologies, Inc. Mr. Akiona joined SHFL entertainment, Inc. in December 2005 and held various positions within the organization's finance and accounting department during his tenure, including Vice President and Corporate Controller and Director of SEC Reporting. Mr. Akiona is a graduate of University of Nevada, Las Vegas with a B.S. in Business Administration with a concentration in accounting.

Victor Gallo. Mr. Gallo joined AGS in February 2010 as Vice President, Licensing and Compliance and Compliance Officer and currently serves as the Company's General Counsel, Secretary, and Compliance Officer and as General Counsel of AGS. Previously, Mr. Gallo was General Counsel and Vice President of Business Development for Youbet.com, Inc., and Vice President of Legal and Compliance and Corporate Counsel for Konami Gaming, Inc. Mr. Gallo has also worked as an attorney in private practice, and as an active duty Captain in the Air Force Judge Advocate General Corps. Mr. Gallo received his Bachelor of Science degree in Aerospace Engineering from the University of Southern California and a Juris Doctor from the University of the Pacific.

Sigmund Lee. Mr. Lee was appointed to serve as Chief Technology Officer of AGS, on July 1, 2015. Mr. Lee most recently served as Chief Technology Officer of Cadillac Jack, Inc., which was acquired by the Company in May of 2015. Mr. Lee joined Cadillac Jack, Inc. in 2006 and served as their Chief Technology Officer during his tenure. Prior to his role at Cadillac Jack, Inc., Mr. Lee served as the Vice President of Engineering for Bally Technologies, Inc. Mr. Lee is a graduate of Georgia State University.

David Sambur. Mr. Sambur has served as a member of the board since November 2013. David is a Co-Lead Partner at Apollo, having joined in 2004. Mr. Sambur has experience in financing, analyzing, investing in and/or advising public and private companies and their board of directors. Prior to joining Apollo, Mr. Sambur was a member of the Leveraged Finance Group of Salomon Smith Barney Inc. Mr. Sambur currently serves on the board of directors of Terrier Media Holdings, Inc. (d/b/a Cox Media Group), Terrier Gamut Holdings, Inc., Sherwood Holdings I, Inc. (parent of Shutterfly), Nugs.net Enterprises, Inc., Camaro Parent, LLC (parent of CareerBuilder) Aspen Holdco, LLC (parent of Coinstar), Constellation Club Holdings, Inc. (parent of ClubCorp), Dakota Holdings, Inc. (parent of Diamond Resorts), EcoATM, LLC, Mood Media Corporation and Redwood Holdco, LLC (parent of Redbox, LLC). Mr. Sambur previously served on the boards of directors of Caesars Entertainment Corporation, Hexion Holdings, LLC (f/k/a Momentive Performance Materials, Inc.), MPM Holdings, and Verso Corporation (f/k/a Verso Paper Corp.). He is also a member of the Mount Sinai Department of Medicine Advisory Board. Mr. Sambur graduated summa cum laude and Phi Beta Kappa from Emory University with a BA in economics.

Daniel Cohen. Mr. Cohen has served as a member of the board of the Company since May 2017. Mr. Cohen is a Principal at Apollo Private Equity,

having joined in 2012. Prior to that time, Mr. Cohen was a generalist in investment banking at Moelis & Company. Mr. Cohen currently serves on the board of directors of Constellation Club Holdings, Inc. (parent of ClubCorp). Mr. Cohen graduated magna *cum laude* from the University of Pennsylvania's Wharton School of Business with a B.S. in Economics, concentrating in Finance and Management.

Yvette E. Landau. Ms. Landau was appointed to serve as a member of the board of the Company upon completion of the initial public offering. Ms. Landau was general counsel and corporate secretary of Mandalay Resort Group from 1996 until 2005. Since 2005, Ms. Landau has been co-owner of W.A. Richardson Builders, LLC, a construction services firm specializing in casino resort development. Ms. Landau currently serves as a member of the Board of Directors of Monarch Casino & Resort, Inc. which owns the Atlantis Casino Resort Spa in Reno, Nevada and the Monarch Casino in Black Hawk, Colorado. Ms. Landau is a past president of the International Association of Gaming Advisors, a worldwide organization of legal, financial and regulatory professionals in the gaming industry, and remains active with the organization as a Counselor. Ms. Landau serves on the Gaming Law Advisory Board of the University of Nevada, Las Vegas Boyd School of Law. Ms. Landau holds a bachelor's degree from Arizona State University and a Juris Doctor degree from Northwestern University School of Law.

Adam Chibib. Mr. Chibib was appointed to serve as a member of the board of the Company upon completion of the initial public offering. Mr. Chibib's career has included successful companies ranging from early-stage start-ups to billion-dollar public companies and has spanned numerous industries including telecom software, security hardware, financial services and gaming. Adam Chibib was most recently President and Chief Financial Officer (CFO) of Multimedia Games Holding Company, Inc., where he was part of a turn-around team that helped double revenues, triple profitability and increase the market capitalization from \$47 million to over \$1 billion. Multimedia Games Holding Company, Inc. was acquired in December of 2014 for \$1.2 billion by Global Cash Access, Inc. (now known as Everi Holdings, Inc.). Mr. Chibib also served as founder and CFO of BroadJump (acquired by Motive), CFO of Waveset (acquired by Sun Microsystems), CFO of TippingPoint Technologies (acquired by 3Com), CFO of NetSpend and as the Worldwide Controller of Tivoli Systems. He was named CFO of the year for the public company category by the Austin Business Journal in 2013 and won the Ernst & Young Entrepreneur of the Year award in 2002. Mr. Chibib is a graduate of the University of Texas.

Geoff Freeman. On November 7, 2018, Mr. Freeman was appointed as a member of the board of the Company, as well as the nominating and governance committee, compensation committee and audit committee. Mr. Freeman is currently the CEO of the Grocery Manufacturers Association. Prior to serving in his current role, Mr. Freeman served as CEO of the American Gaming Association ("AGA") from May 2013 through July 2018. During his five-year tenure at the helm of the AGA, Mr. Freeman led the trade organization to monumental successes that have forever changed the face of the gaming industry, including expanding the organization's membership by 200 percent; overturning the Professional and Amateur Sports Protection Act of 1992 (PASPA), which led to legalized sports betting in the U.S.; significantly improved relationships between tribal and commercial gaming operators; spearheading the AGA's *Get to Know Gaming* campaign focused on the economic benefits of gaming; and delivering a successful campaign to prevent the IRS from lowering the reporting threshold on slot winnings. Before AGA, Mr. Freeman was the COO of The U.S. Travel Association from May 2006 to May 2013, and as a director to The U.S. Travel Association from January 2014 through July 2018. Mr. Freeman holds a Bachelor of Arts, Political Science and Public Policy from the University of California, Berkeley.

Anna Massion. On June 17, 2019, Ms. Massion was appointed as a member of the board of the Company as well as the nominating and governance committee and the compensation committee. Ms. Massion currently serves as an Independent Non-Executive Director at Playtech, PLC. Prior to serving in her current role, Ms. Massion was a Senior Analyst for PAR Capital Management from February 2014 through June 2019. Ms. Massion has also served as a Director of Gaming, Lodging and Leisure Research at Hedgeye Risk Management, LLC from November 2008 through February 2014, Vice President/Senior Research Analyst at Marathon Asset Management from April 2008 through October 2008 and at JP Morgan from September 2001 through March 2008 as a Vice President on the Proprietary Trading Desk from 2004. Ms. Massion holds a Bachelor of Science in Economics, Concentration in Finance, Minor in Russian and a Master of Business Administration in Finance, Major in Finance from The Wharton School at the University of Pennsylvania.

Board Composition

The Company has seven directors, the majority of which are independent directors. Only independent directors serve on our Compensation Committee, Nominating and Corporate Governance Committee and our Audit Committee in accordance with the New York Stock Exchange rules.

Our board of directors is divided into three classes. The members of each class serve staggered, three-year terms (other than with respect to the initial terms of the Class I and Class II directors, which are one and two years, respectively). Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of stockholders in the year in which their term expires. Our directors are:

- Daniel Cohen, Geoff Freeman, Yvette Landau are Class I directors, whose terms expire at the fiscal 2021 annual meeting of stockholders;
- Adam Chibib is a Class II director, whose initial term expires at the fiscal 2022 annual meeting of stockholders; and
- Anna Massion, David Sambur and David Lopez are Class III directors, whose initial terms expire at the fiscal 2020 annual meeting of stockholders.

Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors. This classification of our board of directors may have the effect of delaying or preventing changes in control.

At each annual meeting, our stockholders will elect the successors to one class of our directors. Our executive officers and key employees serve at the discretion of our board of directors. Directors may be removed by the affirmative vote of two-thirds (2/3) of our common stock.

Corporate Governance Guidelines

We have Corporate Governance Guidelines that address significant issues of corporate governance and set forth procedures by which our board of directors carry out their respective responsibilities. The guidelines are available for viewing on our website at investors.playags.com under the "Corporate Governance" section. We will also provide the guidelines, free of charge, to stockholders who request them. Requests should be directed to our Secretary at 5475 S. Decatur Blvd., Ste #100, Las Vegas, NV 89118.

Apollo Group Rights to Nominate Certain Directors

Pursuant to the Stockholders Agreement, Holdings has the right, at any time until the Apollo Group no longer beneficially owns at least 5% of our issued and outstanding common stock, to nominate a number of directors comprising a percentage of the board in accordance with their beneficial ownership of our outstanding common stock (rounded up to the nearest whole number). For example, if the Apollo Group beneficially owns 5.1% of our outstanding common stock and our board has 9 director seats, Holdings shall have the right to nominate one director. See also "Certain Relationships and Related Party Transactions-Stockholders Agreement" for rights of Holdings to nominate a certain number of directors. Pursuant to the Stockholders Agreement, at any time until the Apollo Group no longer beneficially owns at least 5% of our issued and outstanding common stock, we will cause to be appointed to each committee of the board of directors a number of directors nominated by Holdings that is as proportionate (rounding up to the next whole director) to the number of members of such committee as is the number of directors that Holdings is entitled to nominate to the number of members of our board of directors.

Committees of our Board of Directors

Our board of directors has three standing committees: an audit committee, a compensation committee, and a nominating and corporate governance committee. So long as the Apollo Group beneficially owns at least 5% of our outstanding common stock, a number of directors nominated by Holdings that is as proportionate (rounding up to the next whole director) to the number of members of such committee as is the number of directors that Holdings is entitled to nominate to the number of members of our board of directors will serve on each committee of our board, subject to compliance with applicable law.

Audit Committee

Our Audit Committee consists of Mr. Adam Chibib (Chair), Ms. Yvette Landau and Mr. Geoff Freeman. Our board of directors has determined that Mr. Chibib, Ms. Landau and Mr. Freeman each qualifies as an "audit committee financial expert" as such term is defined in Item 407(d)(5) of Regulation S-K and that each of Mr. Chibib, Ms. Landau and Mr. Freeman is independent as independence is defined in Rule 10A-3 of the Exchange Act and under the New York Stock Exchange listing standards. The principal duties and responsibilities of our Audit Committee are as follows:

- to prepare the annual Audit Committee report to be included in our annual proxy statement;
- to oversee and monitor our financial reporting process;
- to oversee and monitor the integrity of our financial statements and internal control system;
- to oversee and monitor the independence, retention, performance and compensation of our independent auditor;
- to oversee and monitor the performance, appointment and retention of our senior internal audit staff person;
- to discuss, oversee and monitor policies with respect to risk assessment and risk management;
- to oversee and monitor our compliance with legal and regulatory matters; and
- to provide regular reports to the board.

The Audit Committee also has the authority to retain counsel and advisors to fulfill its responsibilities and duties and to form and delegate authority to subcommittees.

Compensation Committee

Our Compensation Committee consists of Mr. Geoff Freeman (Chair), Mr. Adam Chibib and Ms. Anna Massion. The principal duties and responsibilities of the Compensation Committee are as follows:

- to review, evaluate and make recommendations to the full board of directors regarding our compensation policies and programs;
- to review and approve the compensation of our chief executive officer, other officers and key employees, including all material benefits, option or stock award grants and perquisites and all material employment agreements, confidentiality and non-competition agreements;
- to review and recommend to the board of directors a succession plan for the chief executive officer and development plans for other key corporate positions as shall be deemed necessary from time to time;
- to review and make recommendations to the board of directors with respect to our incentive compensation plans and equity-based compensation plans;
- to administer incentive compensation and equity-related plans;
- to review and make recommendations to the board of directors with respect to the financial and other performance targets that must be met;
- to set and review the compensation of members of the board of directors; and
- to prepare an annual Compensation Committee report and take such other actions as are necessary and consistent with the governing law and our organizational documents.

Nominating and Corporate Governance Committee

Our board of directors established a Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee consists of Ms. Yvette Landau (Chair), Mr. Geoff Freeman and Ms. Anna Massion. The principal duties and responsibilities of the Nominating and Corporate Governance Committee are as follows:

- to identify candidates qualified to become directors of the Company, consistent with criteria approved by our board of directors;
- to recommend to our board of directors nominees for election as directors at the next annual meeting of stockholders or a special meeting of stockholders at which directors are to be elected, as well as to recommend directors to serve on the other committees of the board;
- to recommend to our board of directors candidates to fill vacancies and newly created directorships on the board of directors;
- to identify best practices and recommend corporate governance principles, including giving proper attention and making effective responses to stockholder concerns regarding corporate governance;
- to develop and recommend to our board of directors guidelines setting forth corporate governance principles applicable to the Company; and
- to oversee the evaluation of our board of directors and senior management.

Code of Business Conduct and Ethics

Our board of directors has adopted a code of business conduct and ethics that applies to all of our directors, officers and employees and is intended to comply with the relevant listing requirements for a code of conduct as well as qualify as a “code of ethics” as defined by the rules of the SEC. The statement contains general guidelines for conducting our business consistent with the highest standards of business ethics. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of such provisions applicable to any principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions, and our directors, on our website at www.playags.com. The code of business conduct and ethics is available on our website.

Board Leadership Structure and Board's Role in Risk Oversight

The board of directors has an oversight role, as a whole and also at the committee level, in overseeing management of the Company's risks. The board of directors regularly reviews information regarding our credit, liquidity and operations, as well as the risks associated with each. The compensation committee of the board of directors is responsible for overseeing the management of risks relating to employee compensation plans and arrangements and the audit committee of the board of directors oversees the management of financial risks. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire board of directors will be regularly informed through committee reports about such risks.

Communications with the Board of Directors

A stockholder or other interested party who wishes to communicate with our directors, a committee of our board of directors, our independent directors as a group or our board of directors generally may do so in writing. Any such communications may be sent to our board of directors by U.S. mail or overnight delivery and should be directed to our Secretary at 5475 S. Decatur Blvd., Ste #100 Las Vegas, NV 89118, who will forward them to the intended recipient(s). Any such communications may be made anonymously. Unsolicited advertisements, invitations to conferences or promotional materials, in the discretion of our Secretary, are not required, however, to be forwarded to the directors.

ITEM 11. EXECUTIVE COMPENSATION.

Executive Summary

The Company's goal for its executive compensation program is to utilize a pay-for-performance compensation program that is directly related to achievement of the Company's financial and strategic objectives. The primary elements of the program, which are discussed in greater detail below, include base salary, annual cash bonus incentives based on performance and long-term equity incentives in the form of stock-based compensation. These elements are designed to: (i) provide compensation opportunities that will allow the Company to attract and retain talented executive officers who are essential to the Company's success; (ii) provide compensation that rewards both individual and corporate performance and motivates the executive officers to achieve corporate strategic objectives; (iii) reward superior financial and operational performance in a given year, over a sustained period and expectations for the future; (iv) place compensation at risk if performance goals are not achieved; and (v) align the interests of executive officers with the long-term interests of stockholders through stock-based awards.

Summary Compensation Table

The following table discloses compensation for our fiscal years ending December 31, 2019, and 2018 received by Messrs. Lopez, Lee, and Akiona, each of whom was a “named executive officer” during Fiscal 2019.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽²⁾	Non-Equity Incentive Plan Compensation (\$) ⁽³⁾	All Other Compensation (\$) ⁽⁴⁾	Total (\$)
David Lopez, President, Chief Executive Officer and Secretary	2019	700,000	—	1,432,761	497,000	11,806	\$ 2,641,567
	2018	600,000	—	1,234,337	963,018	13,260	\$ 2,810,615
Sigmund Lee, Chief Technology Officer	2019	600,000	450,000 ⁽¹⁾	1,325,460	319,500	14,436	\$ 2,709,396
	2018	528,846	1,200,000 ⁽¹⁾	991,875	637,857	15,357	\$ 3,373,935
Kimo Akiona, Chief Financial Officer and Treasurer	2019	336,500	—	345,858	179,186	3,194	\$ 864,738
	2018	289,115	—	583,298	361,182	11,647	\$ 1,245,242

(1) Represents annual retention bonus of \$450,000 in 2019 and bonuses of \$1,200,000 in 2018 comprised of a sign-on bonus of \$500,000 in connection with signing a new employment agreement and \$700,000 of annual incentive plan bonuses (as defined in the employment agreement).

(2) Amounts represent the aggregate grant date fair value of the awards computed in accordance with FASB Accounting Standards Codification (“ASC”) Topic 718 (disregarding any risk of forfeiture assumptions). For a discussion of the relevant valuation assumptions, see Item 15 “Exhibits and Financial Statement Schedules.” Note 11. for further explanation.

(3) Amounts represent annual incentive cash bonuses paid to employees. Employees are eligible to earn annual cash bonuses based on attainment of applicable compensation adjusted EBITDA performance targets. Each bonus plan participant is assigned a bonus payment range expressed as a percentage of base salary. The amount of the cash bonus is then increased or decreased within the applicable range based on over- or under-performance with respect to the performance targets, subject to a minimum achievement level of 85% necessary to earn 50% of the target bonus, a maximum achievement level of 120% to earn a bonus of 200% of the target, and a target achievement level of 100% that corresponds to a payout level of 100% of target (with interpolation of bonus payments between such levels).

(4) Amounts represent the Company's matching contributions under our 401(k) Plan and various fringe benefits.

The applicable compensation adjusted EBITDA target for 2019 was \$164,208,000 and attainment for such year was 88% of the target, or \$144,955,000, which corresponded to a payout level of 71%. The applicable compensation adjusted EBITDA target for 2018 was \$131,460,000, and attainment for such year was 110% of target, or \$144,402,000, which corresponded to a payout level of 140%.

Effective December 31, 2019, the named executive officers elected to receive a portion of their fiscal 2019 annual incentive bonus in shares of immediately vested common stock in lieu of cash. The non-equity incentive plan compensation amounts for 2019 in the table above include \$248,500 (equal to 20,486 shares) for Mr. Lopez, \$159,750 (equal to 13,170 shares) for Mr. Lee, and \$89,593 (equal to 7,386 shares) for Mr. Akiona that was actually received as shares of common stock in lieu of cash. Also, effective December 12, 2018, the named executive officers elected to receive a portion of their fiscal year 2018 annual incentive bonus in shares of immediately vested common stock in lieu of cash. The amounts in the table above for the named executives include \$107,857 for 2018 that was actually received as 4,764 shares of common stock in lieu of cash.

To provide investors with additional information in connection with our annual cash bonuses, we disclose Compensation Adjusted EBITDA. This measure is not a financial measure calculated in accordance with GAAP and should not be considered as a substitute for net income, operating income, cash flows, or any other measure calculated in accordance with GAAP, and may not be comparable to a similarly titled measure reported by other companies.

We believe that the presentation of Compensation Adjusted EBITDA is appropriate to provide additional information to investors about our operating profitability adjusted for certain non-cash items, non-routine items that we do not expect to continue at the same level in the future, as well as other items that are not core to our operations. Further, we believe Compensation Adjusted EBITDA provides a meaningful measure of operating profitability because we use it for evaluating our business performance, making budgeting decisions, and comparing our performance against that of other peer companies using similar measures.

Compensation Adjusted EBITDA for purposes of bonus performance targets is defined as earnings before interest, taxes, depreciation and amortization including adjustments for nonrecurring items, foreign exchange rates, synergies and for 2018 excluding bonus expenses.

There are material limitations to using Compensation Adjusted EBITDA. Compensation Adjusted EBITDA does not take into account certain significant items, including depreciation and amortization, interest, taxes, and other adjustments which directly affect our net income or loss. These limitations are best addressed by considering the economic effects of the excluded items independently and by considering Compensation Adjusted EBITDA in conjunction with net income as calculated in accordance with GAAP.

	For the Year Ended December 31,	
	2019	2018
Net (Loss) Income	\$ (11,752)	\$ (20,846)
Income (benefit) tax	(5,449)	(8,377)
Depreciation and amortization	91,474	77,535
Other expense (income)	4,622	10,488
Interest income	(163)	(207)
Interest expense	36,248	37,607
Write-downs and other ⁽¹⁾	6,912	8,753
Loss on extinguishment and modification of debt ⁽²⁾	—	6,625
Other adjustments ⁽³⁾	909	2,426
Other non-cash charges ⁽⁴⁾	9,078	6,633
Legal and litigation expenses ⁽⁵⁾	1,844	992
Acquisition and integration related costs ⁽⁶⁾	3,338	3,644
Non-cash stock compensation ⁽⁷⁾	9,001	10,933
Adjusted EBITDA	\$ 146,062	\$ 136,206
Accrued bonuses ⁽⁸⁾	—	7,248
Foreign currency ⁽⁹⁾	(528)	744
Unbudgeted acquisition and other items ⁽¹⁰⁾	(579)	204
Compensation Adjusted EBITDA	\$ 144,955	\$ 144,402

(1) Write-downs and other include items related to loss on disposal or impairment of long-lived assets and fair value adjustments to contingent consideration.

(2) Loss on extinguishment and modification of debt primarily relates to the refinancing of long-term debt, in which deferred loan costs and discounts related to old senior secured credit facilities were written-off.

(3) Other adjustments are primarily composed of professional fees incurred for projects, corporate and public filing compliance, contract cancellation fees and other transaction costs deemed to be non-operating in nature.

(4) Other non-cash charges are costs related to non-cash charges and losses on the disposition of assets, non-cash charges on capitalized installation and delivery, which primarily includes the costs to acquire contracts that are expensed over the estimated life of each contract and non-cash charges related to accretion of contract rights under development agreements.

(5) Legal and litigation related costs consist of payments to law firms and settlements for matters that are outside the normal course of business.

(6) Acquisitions and integration related costs primarily relate to costs incurred after the purchase of businesses, such as the purchase of AGS iGaming and Integrity, to integrate operations and obtain costs synergies. Restructuring and severance costs primarily relate to costs incurred through the restructuring of the Company's operations from time to time and other employee severance costs recognized in the periods presented.

(7) Non-cash stock-based compensation includes non-cash compensation expense related to grants of options, restricted stock, and other equity awards.

(8) In 2018, accrued bonuses were added to Adjusted EBITDA for comparability to the compensation adjusted EBITDA target.

(9) Foreign currency items are gains and losses attributable to foreign currency translation that were not considered during the budget process and are therefore added to Adjusted EBITDA.

(10) Unbudgeted acquisition and other items represent transactions and results from operations of acquired businesses as well as other items that were not considered within the budget at the time the bonus target was determined by management.

Employment Agreements with Named Executive Officers

David Lopez

On April 28, 2014, the Company entered into an employment agreement with David Lopez to serve as President and Chief Executive Officer of AGS LLC, a subsidiary of the Company ("AGS"), effective as of February 3, 2014. The agreement extends for an initial term of three years, until the third anniversary of February 3, 2014, and shall thereafter be automatically extended for successive one-year periods, unless either party provides written notice of non-renewal at least 90 days prior to the expiration of the initial term or any extended term. Currently, Mr. Lopez's annual base salary as set by the Board is \$700,000 and Mr. Lopez is eligible to receive an annual performance-based bonus, with an annual target bonus opportunity of 100% of his base salary.

Sigmund Lee

AGS entered into a new employment agreement with Sigmund Lee, as executed on November 5, 2018 and effective September 1, 2018, to continue to serve as Chief Technology Officer, a position he has served in since July 1, 2015. The agreement is "at-will," meaning that either party may terminate the employment relationship at any time and for any reason, either with or without cause. As of December 31, 2019, Mr. Lee's employment agreement was amended to limit his responsibilities to research and development of the Electronic Gaming Machine segment only and to clarify that he does not set company-wide policy. Pursuant to his employment agreement, Mr. Lee's annual base salary shall be \$600,000. Mr. Lee's base salary may from time to time be increased, but may be decreased only in connection with an AGS-wide decrease for all senior leadership positions. Mr. Lee is also eligible to receive an annual performance-based bonus, with an annual target bonus opportunity no less than 75% of his base salary if 100% of target is achieved. Mr. Lee will be eligible for this performance-based bonus if he is actively employed by AGS at the time of the bonus payment.

Further, pursuant to Mr. Lee's employment agreement, in exchange for his commitment to remain employed for a three-year period commencing September 1, 2018, Mr. Lee will also be eligible to receive a retention bonus of \$450,000, payable during the first fiscal quarter of each of 2019, 2020 and 2021. Upon Mr. Lee's resignation without good reason or upon termination of his employment by AGS with cause prior to the expiration of the three-year period, Mr. Lee will be obligated to repay the net after-tax amount of any such retention bonus paid to him in the year of termination.

In addition, Mr. Lee received a one-time sign-on bonus in the gross amount of \$500,000. Upon Mr. Lee's resignation without good reason prior to September 1, 2021, Mr. Lee will be obligated to repay the net after-tax amount of the sign-on bonus.

Kimo Akiona

AGS entered into a new employment agreement with Kimo Akiona, as executed on December 13, 2018 and effective October 21, 2018, to continue to serve as Chief Financial Officer of AGS, a position he has served in since February 23, 2015. The agreement is "at-will," meaning that either party may terminate the employment relationship at any time and for any reason, either with or without cause. Pursuant to his employment agreement, Mr. Akiona's annual base salary shall be \$336,500. Mr. Akiona's base salary may from time to time be increased, but may be decreased only in connection with an AGS-wide decrease for all senior leadership positions. Mr. Akiona shall be eligible to receive an annual performance-based bonus, with an annual target bonus opportunity no less than 75% of his base salary if 100% of target is achieved. Mr. Akiona will be eligible for this performance-based bonus if he is actively employed by AGS on the time of the bonus payment.

Outstanding equity awards as of the year ended December 31, 2019:

Name	Options				Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise or Base Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares or Units of Stock That Have Not Vested (#)	Equity Incentive Plan Awards: Market Value of Unearned Shares or Units of Stock That Have Not Vested (\$) ⁽¹¹⁾
David Lopez ⁽¹⁾	396,350	—	—	\$ 6.43	4/28/2024	59,068	716,495	29,902	362,711
Sigmund Lee ⁽²⁾⁽³⁾	116,572	—	—	\$ 10.10	7/17/2025	50,669	614,615	27,232	330,324
Kimo Akiona ⁽⁴⁾	58,287	19,429	—	\$ 10.92	1/18/2026	—	—	—	—
	70,718	5,051	—	\$ 9.42	3/11/2025	22,690	275,230	7,187	87,178

(1) Represents 349,721 options granted on April 28, 2014 to purchase common shares. One-third of the option grant was eligible to vest in equal installments of 20% on each of the first five anniversaries of the date of the grant, subject to continued employment with the Company or its subsidiaries. The remaining two-thirds of the option grant was subject to performance-based vesting criteria and vested on October 18, 2018 upon the achievement of the applicable performance targets. Also represents 46,629 options granted on April 28, 2014 to purchase common shares, provided, that this grant of options vested in full upon the date of grant.

(2) Represents 116,572 options granted on July 17, 2015 to purchase common shares. This grant of options is time-based only, and is eligible to vest in equal installments of 25% on each of the first four anniversaries of the date of the grant, subject to continued employment with the Company or its subsidiaries.

(3) Represents 77,716 options granted on January 18, 2016 to purchase common shares. This grant of options is time-based only, and is eligible to vest in equal installments of 25% on each of the first four anniversaries of the date of the grant, subject to continued employment with the Company or its subsidiaries. In the event of a termination of employment without cause or as a result of death or disability, any time-based options which would have vested on the next applicable vesting date shall become vested, and the remaining unvested time-based options shall be forfeited. In addition, upon a Change in Control (as defined in the Company's 2014 Long-Term Incentive Plan), subject to continued employment through the date of the Change in Control, all outstanding unvested time-based options shall immediately vest.

(4) Represents 75,769 options granted on March 11, 2015 to purchase common shares. One-third of the options are eligible to vest in equal installments of 20% on each of the first five anniversaries of the date of the grant, subject to continued employment with the Company or its subsidiaries. In the event of a termination of employment without cause or as a result of death or disability, any such time-based options which would have vested on the next applicable vesting date shall become vested, and the remaining unvested time-based options shall be forfeited. In addition, upon a Change in Control (as defined in the Company's 2014 Long-Term Incentive Plan), subject to continued employment through the date of the Change in Control, all outstanding unvested time-based options shall immediately vest. The remaining two-thirds of the option grant was subject to performance-based vesting criteria and vested on October 18, 2018 upon achievement of the applicable performance targets.

(5) Represents 29,166 restricted shares granted on August 23, 2018 and 29,902 restricted shares granted on March 4, 2019, which are eligible to vest in equal installments of 25% on each of the first four anniversaries of the date of grant. In the event of a termination of employment without cause upon or within 12 months following a change of control or as a result of death, any unvested portion shall immediately vest. In the event of a termination as a result of disability, the portion of the restricted shares which would have vested on the next applicable vesting date shall become vested, and the remaining unvested portion shall be forfeited. Except as otherwise provided above, upon a termination for any reason, the unvested restricted shares shall be forfeited.

(6) Represents 23,437 restricted shares granted on August 23, 2018 and 27,232 restricted shares granted on March 4, 2019, which are eligible to vest in equal installments of 25% on each of the first four anniversaries of the date of grant. In the event of a termination of employment without cause upon or within 12 months following a change of control or as a result of death, any unvested portion shall immediately vest. In the event of a termination as a result of disability, the portion of the restricted shares which would have vested on the next applicable vesting date shall become vested, and the remaining unvested portion shall be forfeited. Except as otherwise provided above, upon a termination for any reason, the unvested restricted shares shall be forfeited.

(7) Represents 7,500 restricted shares granted on May 30, 2018, 8,003 restricted shares granted on August 23, 2018 and 7,187 restricted shares granted on March 4, 2019, which are eligible to vest in equal installments of 25% on each of the first four anniversaries of the date of grant. In the event of a termination of employment without cause upon or within 12 months following a change of control or as a result of death, any unvested portion shall immediately vest. In the event of a termination as a result of disability, the portion of the restricted shares which would have vested on the next applicable vesting date shall become vested, and the remaining unvested portion shall be forfeited. Except as otherwise provided above, upon a termination for any reason, the unvested restricted shares shall be forfeited.

(8) Includes 29,902 restricted shares granted on March 4, 2019, which are eligible to vest on the first day that the 60-day average closing price of the Company's common stock exceeds \$29.60, subject to continued employment through such date. In the event of termination of employment without cause upon or within 12 months following a change of control or as a result of death, any unvested portion shall immediately vest. Except as otherwise provided above, upon a termination for any reason, the unvested restricted shares shall be forfeited.

- (9) Includes 27,232 restricted shares granted on March 4, 2019, which are eligible to vest on the first day that the 60-day average closing price of the Company's common stock exceeds \$29.60, subject to continued employment through such date. In the event of termination of employment without cause upon or within 12 months following a change of control or as a result of death, any unvested portion shall immediately vest. Except as otherwise provided above, upon a termination for any reason, the unvested restricted shares shall be forfeited.
- (10) Includes 7,187 restricted shares granted on March 4, 2019, which are eligible to vest on the first day that the 60-day average closing price of the Company's common stock exceeds \$29.60, subject to continued employment through such date. In the event of termination of employment without cause upon or within 12 months following a change of control or as a result of death, any unvested portion shall immediately vest. Except as otherwise provided above, upon a termination for any reason, the unvested restricted shares shall be forfeited.
- (11) For purposes of this table, the shares of common stock of the Company were valued using the closing stock price on December 31, 2019 of \$12.13.

Pension Benefits

We do not maintain any defined benefit pension plan for the benefit of our named executive officers.

Management Incentive Plan

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

Non-qualified Deferred Compensation

We do not maintain any non-qualified deferred compensation plan for the benefit of our named executive officers.

Payments Upon Termination and Change of Control

Pursuant to Mr. Lopez's employment agreement, if during the term of the agreement AGS terminates Mr. Lopez's employment without cause or he resigns for good reason, subject to receiving a signed release of claims from Mr. Lopez, Mr. Lopez will receive severance pay equal to 24 months base salary (paid over a 24-month period) along with the pro-rated managerial bonus for the year in which Mr. Lopez is terminated. Mr. Lopez would also be eligible to receive continued health benefits at no greater cost than would apply if he were an active employee for 18 months post termination, or if earlier, until he commences employment with a subsequent employer. Pursuant to his employment agreement, Mr. Lopez will also be subject to perpetual confidentiality, intellectual property and non-disparagement, as well as certain non-solicitation and certain non-competition restrictions for 24 months following the date of his employment.

Pursuant to Mr. Lee's employment agreement, if during the term of the agreement AGS terminates Mr. Lee's employment without cause, subject to receiving a signed release of claims from Mr. Lee, Mr. Lee will receive severance pay equal to 18 months base salary (paid over an 18-month period) (or, if a change of control (as defined in the employment agreement) occurs and such termination occurs on or within 24 months of such change of control, 24 months base salary (paid over a 24-month period)), along with the pro-rated managerial bonus for the year in which Mr. Lee is terminated. Pursuant to his employment agreement, Mr. Lee will also be subject to perpetual confidentiality, intellectual property and non-disparagement, as well as certain non-solicitation restrictions for 18 months following the date of his employment, and certain non-competition restrictions for either (a) twenty-four (24) months post-termination of employment if his employment is terminated prior to September 21, 2021, or (b) six months if his employment is terminated after September 21, 2021.

Pursuant to Mr. Akiona's employment agreement, if during the term of the agreement AGS terminates Mr. Akiona's employment without cause or he resigns for good reason, subject to receiving a signed release of claims from Mr. Akiona, Mr. Akiona will receive severance pay equal to 18 months base salary (paid over an 18-month period) along with the pro-rated managerial bonus for the year in which Mr. Akiona is terminated. Pursuant to his employment agreement, Mr. Akiona will also be subject to perpetual confidentiality, intellectual property and non-disparagement, as well as certain non-solicitation and certain non-competition restrictions for 18 months following the date of his employment.

"Cause" for Messrs. Lopez and Akiona generally includes: (i) illegal fraudulent conduct, (ii) conviction of or plea of "guilty" or "no contest" to any crime constituting a felony or other crime involving dishonesty, breach of trust, moral turpitude or physical harm to any person, (iii) a determination by the Board that the named executive officer's involvement with AGS would have a negative impact on AGS's ability to receive or retain any licenses, (iv) being found unsuitable for, or having been denied, a gaming license, or having such license revoked by a gaming regulatory authority in any jurisdiction in which AGS or any of its subsidiaries or affiliates conducts operations, (v) willful or material misrepresentation to AGS or to members of the Board relating to the business, assets or operation of AGS, (vi) refusal to take any action that is consistent with the named executive's obligations and responsibilities under his employment agreement as reasonably directed by the Board or (vii) material breach of any agreement with AGS and its affiliates, which material breach has not been cured within 30 days of written notice from the Board.

"Cause" for Mr. Lee generally includes: (i) failure or inability to perform the essential functions of his position after written notice and 30 days to cure, (ii) failure to cure a material breach of any of the terms of his employment agreement after written notice and 30 days to cure, (iii) being charged with or convicted of a crime involving fraud, theft, embezzlement, assault, battery or other violent act or another crime involving dishonesty, violence or moral turpitude, (iv) declining to follow any significant and legal instruction from AGS after written notice and 30 days to cure, (v) failure to maintain or having suspended, revoked or denied any applicable or necessary license, permit or professional designation, or where AGS has reasonably determined that the named executive's involvement with AGS may have a negative impact on AGS's ability to receive or retain any of its licenses, (vi) intentionally declining or failing to follow any known rule or policy of AGS, including as examples only, policies prohibiting discrimination or harassment in the workplace and safety or health rules, (vii) violation or participation in a violation of a statute or regulation of a federal, state or local government regarding gaming, safety, health, labor or employment or (viii) committing any act that constitutes a breach of a fiduciary duty or a duty of loyalty.

For Mr. Lopez, “Good Reason” means his voluntary resignation after any of the following actions are taken by AGS or any of its subsidiaries without his consent: (i) removal from the office of President and Chief Executive Officer of AGS or a change in reporting lines such that Mr. Lopez no longer reports to the board, (ii) a requirement that Mr. Lopez be based anywhere other than within 35 miles of Las Vegas, Nevada, or (iii) a notice from AGS to Mr. Lopez of non-extension of the employment term; provided, however, that a termination will not be for “Good Reason” unless Mr. Lopez shall have provided written notice to AGS of the existence of one of the above conditions within 30 days following the initial existence of such condition, specifying in reasonable detail such condition, AGS shall have had 30 days following receipt of such written notice to remedy the condition, AGS shall have failed to remedy the condition during the applicable cure period, Mr. Lopez shall have thereafter and prior to the date of termination provided a notice of termination to AGS, and Mr. Lopez’s date of termination shall have occurred within 30 days following expiration of the cure period.

For Mr. Akiona, “Good Reason” means a material diminution of duties, title, reporting structure, or base salary; provided that, Mr. Akiona may not terminate employment for “Good Reason” unless Mr. Akiona provides written notice to AGS within 90 days after Mr. Akiona first having knowledge of the “Good Reason” event, and AGS has not cured such event within 30 days of receiving such notice.

For the treatment of equity upon termination of employment, please see the section “-Outstanding equity awards as of the year ended December 31, 2019.”

Director Compensation

The following table sets forth the total compensation paid to each of our non-employee directors for the year ended December 31, 2019.

Name⁽¹⁾	Fees Earned or Paid in Cash⁽²⁾	Stock Awards⁽³⁾	Total
Adam Chibib	100,000	74,994	174,994
Yvette Landau	75,000	74,994	149,994
Geoff Freeman	75,000	74,994	149,994
Anna Massion	46,875	71,749	118,624

(1) For 2019, David Sambur, Daniel Cohen, and David Lopez were members of our board of directors and did not receive any compensation from the Company for their services on the board.

(2) Amounts set forth in Fees Earned or Paid in Cash column represent the aggregate dollar amount of all fees earned or paid in cash for services as a director, including committee and/or chairmanship fees, pro-rated as applicable for the first year of service. Director fees are earned and paid quarterly.

(3) Amounts set forth in the Stock Awards column represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. In 2019, each director’s award consisted of restricted shares which vest over a period of one year from the grant date.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

PRINCIPAL STOCKHOLDERS

The following table sets forth the beneficial ownership of our common stock by:

- each person, or group of affiliated persons, who we know to beneficially own more than 5% of our common stock;
- each of our named executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to such securities. Except as otherwise indicated, all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws. Unless otherwise indicated, the address of each person or entity named in the table below is c/o 5475 S. Decatur Blvd., Ste #100, Las Vegas, NV 89118.

	Shares Beneficially Owned	
	Number	Percent
5% Stockholders		
Apollo Gaming Holdings, L.P. ⁽¹⁾	8,208,076	22.3%
AP Gaming VoteCo, LLC ⁽¹⁾⁽²⁾	8,208,076	22.3%
ArrowMark Colorado Holdings, LLC	3,518,570	9.6%
Schroder Investment Management North America Inc.	2,022,184	5.5%
BlackRock, Inc.	1,853,835	5.0%
Ameriprise Financial, Inc.	1,824,451	5.0%
Named Executive Officers and Directors		
David Lopez ⁽³⁾	538,134	1.5%
Kimo Akiona ⁽⁴⁾	113,094	0.3%
Victor Gallo ⁽⁵⁾	113,720	0.3%
Sigmund Lee ⁽⁶⁾	222,668	0.6%
David Sambur ⁽¹⁾⁽²⁾	—	—
Daniel Cohen ⁽²⁾	—	—
Adam Chibib	11,390	—%
Yvette Landau	16,390	—%
Geoff Freeman	6,960	—%
Anna Massion	6,000	—%
All current directors and executive officers as a group (10 persons)	1,028,356	2.7%

(1) Represents shares of our common stock held of record by Holdings, which are subject to the irrevocable proxy granted by Holdings to VoteCo pursuant to the Irrevocable Proxy and Power of Attorney, irrevocably constituting and appointing VoteCo, with full power of substitution, its true and lawful proxy and attorney-in-fact to: (i) vote all of the shares of our common stock held by Holdings at any meeting (and any adjournment or postponement thereof) of our stockholders, and in connection with any written consent of our stockholders, and (ii) direct and effect the sale, transfer or other disposition of all or any part of the shares of our common stock held by Holdings, if, as and when so determined in the sole discretion of VoteCo. The irrevocable proxy terminates with respect to any shares of our common stock that are sold, transferred or otherwise disposed of by VoteCo upon such sale, transfer or other disposition. VoteCo is member-managed by its sole member, David Sambur. Mr. Sambur holds the membership interests of VoteCo and as such may be deemed to share voting and dispositive control, and beneficial ownership, with VoteCo with respect to the shares of our common stock subject to the irrevocable proxy granted to VoteCo. Apollo Gaming Holdings GP, LLC ("Holdings GP") is the general partner of Holdings. Apollo Management VIII, L.P. ("Management VIII") is the manager of Holdings GP and of Apollo Investment Fund VIII, L.P. ("AIF VIII"). AIF VIII is a member of Holdings GP, and as such has the right to direct Management VIII in its management of Holdings GP, and is also a limited partner of Holdings. AIF VIII Management, LLC ("AIF VIII LLC") is the general partner of Management VIII. Apollo Management, L.P. ("Apollo Management") is the sole member-manager of AIF VIII LLC, and Apollo Management GP, LLC ("Management GP") is the general partner of Apollo Management. Apollo Management Holdings, L.P. ("Management Holdings") is the sole member and manager of Management GP. Apollo Management Holdings GP, LLC ("Management Holdings GP") is the general partner of Management Holdings. Leon Black, Joshua Harris and Mr. Rowan are the managers, as well as executive officers, of Management Holdings GP. Due to the irrevocable proxy granted to VoteCo, none of Holdings, Holdings GP, Management VIII, AFI VIII, AIF VIII LLC, Apollo Management, Management GP, Management Holdings or Management Holdings GP will be deemed to beneficially own the shares of our common stock held by Holdings. The address of VoteCo is 5475 S. Decatur Blvd., Las Vegas, Nevada 89118. The address of each of Holdings, Holdings GP, Management VIII, AIF VIII LLC, Apollo Management, Management GP, Management Holdings and Management Holdings GP, and Messrs. Black, Harris, Rowan and Sambur, is 9 West 57th Street, 43rd Floor, New York, New York 10019

(2) David Sambur, and Daniel Cohen are each affiliated with Apollo Management and its affiliated investment managers and advisors. Messrs. Black, Cohen, Harris, Rowan and Sambur each disclaim beneficial ownership of the shares of our common stock that are beneficially owned by VoteCo, or directly held of record by Holdings. The address of Mr. Cohen and Mr. Sambur is 9 West 57th Street, 43rd Floor, New York, New York 10019.

(3) Number of shares beneficially owned includes 396,350 shares of common stock issuable upon the exercise of options within 60 days and 9,740 shares held by Mr. Lopez's family members for which Mr. Lopez disclaims beneficial ownership, and this table should not be deemed an admission that he is the beneficial owner of his family members' shares.

(4) Number of shares beneficially owned includes 70,718 shares of common stock issuable upon the exercise of options within 60 days.

(5) Number of shares beneficially owned includes 58,288 shares of common stock issuable upon the exercise of options within 60 days.

(6) Number of shares beneficially owned includes 194,288 shares of common stock issuable upon the exercise of options within 60 days.

2014 Long-Term Incentive Plan

On April 28, 2014, the board of directors of the Company approved the 2014 Long-Term Incentive Plan ("LTIP"). Under the LTIP, the Company is authorized to grant nonqualified stock options, rights to purchase common stock, restricted stock, restricted stock units and other awards to be settled in, or based upon, common stock to persons who are directors and employees of and consultants to the Company or any of its subsidiaries on the date of the grant. The LTIP will terminate ten years after approval by the board. Subject to adjustments in connection with certain changes in capitalization, the maximum number of shares that may be delivered pursuant to awards under the LTIP is 2,253,735 after giving effect to the 1.5543 - for - 1 stock split consummated on January 30, 2018 in connection with our initial public offering.

2018 Omnibus Incentive Plan

On January 16, 2018, our board adopted and our stockholders approved the 2018 Omnibus Incentive Plan (the “Omnibus Incentive Plan”) pursuant to which equity-based and cash incentives may be granted to participating employees, directors and consultants. The Omnibus Incentive Plan provides for an aggregate of 1,607,389 post-split shares of our common stock. No more than 1,607,389 shares of our common stock may be issued with respect to incentive stock options under the Omnibus Incentive Plan. The compensation committee may grant awards of non-qualified stock options, incentive (qualified) stock options, stock appreciation rights, restricted stock awards, restricted stock units, other stock-based awards, performance compensation awards (including cash bonus awards), other cash-based awards or any combination of the foregoing.

	As of December 31, 2019		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)(#)	(b)(\$)	(c)(#)
Equity compensation plans approved by security holders	2,095,482	\$ 9.10	942,039
Equity compensation plans not approved by shareholders	—	—	—
Total remaining shares to be issued.	2,095,482	\$ 9.10	942,039

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Related Transactions

Other than compensation arrangements for our named executive officers and directors, there were no transactions, to which we were a party or will be a party, in which:

- the amounts involved exceeded or will exceed \$120,000; and
- any of our directors, executive officers or holders of more than 5% of our capital stock, or any member of the immediate family of the foregoing persons, had or will have a direct or indirect material interest.

Policies and Procedures for Related Person Transactions

We have adopted a written Related Person Transaction Policy (the “policy”), which sets forth our policy with respect to the review, approval, ratification and disclosure of all related person transactions by our Audit Committee. In accordance with the policy, our Audit Committee has overall responsibility for implementation of and compliance with the policy.

For purposes of the policy, a “related person transaction” is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we were, are or will be a participant and the amount involved exceeded, exceeds or will exceed \$120,000 and in which any related person (as defined in the policy) had, has or will have a direct or indirect material interest. A “related person transaction” does not include any employment relationship or transaction involving an executive officer and any related compensation resulting solely from that employment relationship that has been reviewed and approved by our board of directors or Audit Committee.

The policy requires that notice of a proposed related person transaction be provided to our legal department prior to entry into such transaction. If our legal department determines that such transaction is a related person transaction, the proposed transaction will be submitted to our Audit Committee for consideration. Under the policy, our Audit Committee may approve only those related person transactions that are in, or not inconsistent with, our best interests and the best interests of our stockholders. In the event that we become aware of a related person transaction that has not been previously reviewed, approved or ratified under the policy and that is ongoing or is completed, the transaction will be submitted to the Audit Committee so that it may determine whether to ratify, rescind or terminate the related person transaction.

The policy also provide that the Audit Committee review certain previously approved or ratified related person transactions that are ongoing to determine whether the related person transaction remains in our best interests and the best interests of our stockholders. Additionally, we will make periodic inquiries of directors and executive officers with respect to any potential related person transaction of which they may be a party or of which they may be aware.

Securityholders Agreement

Concurrently with the closing of our initial public offering, we amended and restated the Securityholders Agreement (as amended and restated, the “Securityholders Agreement”), by and among AP Gaming Holdings, L.P. (the “Partnership”), VoteCo, the Company and each holder who serves in management Shares from time to time party thereto, including David Lopez, our Chief Executive Officer (each a “Holder”). The Securityholders Agreement provides the Partnership and Apollo Investment Fund VIII, L.P., and each of their respective affiliates, with certain demand registration rights. It also provides each Holder with piggy-back registration rights and imposes certain transfer restrictions on each Holder’s ownership of the Company’s common shares and sets forth the Company’s right to repurchase any common shares held by Holders who are employed by, or serve as consultants to or directors of, the Company or any of its subsidiaries upon their termination from such employment or consultancy. The Securityholders Agreement also imposes certain restrictions on each Holder who serves in management, including non-solicitation, non-compete and non-disclosure requirements.

Stockholders Agreement

With the consummation of the initial public offering, we entered into a Stockholders Agreement with VoteCo and Holdings, which is an entity controlled by Apollo. Pursuant to the Stockholders Agreement, Holdings has the right, at any time until the Apollo Group no longer beneficially owns at least 5% of our issued and outstanding common stock, to nominate a number of directors comprising a percentage of the board in accordance with its beneficial ownership of our outstanding common stock (rounded up to the nearest whole number), see "Item 10. Directors, Executive officers and Corporate Governance --Apollo Group Approval of Certain Matters and Rights to Nominate Certain Directors." The Stockholders Agreement sets forth certain information rights granted to the Apollo Group. It also specifies that we will provide indemnification and advance of expenses of VoteCo and each stockholder party to the Stockholders Agreement for any claim arising from their actions as the Company's stockholders or controlling persons.

Director Independence

Our independent directors, as such term is defined by the applicable rules and regulations of the New York Stock Exchange and our board's determination of their independence, are Adam Chibib, Yvette Landau, Geoff Freeman and Anna Massion.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

PricewaterhouseCoopers LLP ("PwC") served as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2019 and 2018. The following table presents fees for professional services rendered by PwC related to the audit of the Company's annual financial statements for the fiscal years ended December 31, 2019 and 2018 and fees billed for other services rendered by PwC during those years.

Category	2019	2018
Audit fees	\$ 1,316,393	\$ 1,293,231
Audit related	412,433	466,232
Tax fees	482,155	482,985
All other fees	679,900	841,974
Total	<u>\$ 2,890,881</u>	<u>\$ 3,084,422</u>

Audit Fees consisted of the aggregate fees paid or accrued for professional services rendered for the annual audit of the Company's financial statements, the reviews of our interim consolidated financial statements included in our quarterly reports on Form 10-Q, and statutory audits of foreign subsidiary financial statements. The Audit-Related fees listed above were billed in connection with the professional services performed in 2019 and 2018 including services related to SEC registration statement filings. Tax fees include the aggregate fees paid during the respective years for tax compliance and tax advisory services. All Other Fees listed above were billed for services provided in connection with acquisition due diligence and other services.

The Board of Directors of the Company has adopted a policy that requires advance approval of all audit, audit-related, tax and other services performed by the independent auditors. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. All of the fees described in the table above were pre-approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1). Financial Statements.

Included in Part II of this Amendment:

Report of Independent Registered Public Accounting Firms	62
Consolidated Balance Sheets	63
Consolidated Statements of Operations and Comprehensive Loss	64
Consolidated Statements of Changes in Stockholders' Equity	65
Consolidated Statements of Cash Flows	66
Notes to Consolidated Financial Statements	67

(a)(2). Financial Statement Schedules.

We have omitted certain other financial statement schedules because they are not required or are not applicable, or the required information is shown in the financial statements or notes to the financial statements. We have included Schedule I - Financial Information of the Registrant for the years ended December 31, 2019, 2018, and 2017 on page 90 and Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2019, 2018, and 2017 on page 93.

(a)(3). Exhibits.

**Exhibit
Number**

Exhibit Description

- | Exhibit Number | Exhibit Description |
|----------------|---|
| 3.1 | Certificate of Amended and Restated Articles of Incorporation of PlayAGS, Inc., effective January 29, 2018 (incorporated by reference to Exhibit 3.1 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 5, 2019). |
| 3.2 | Amended and Restated Bylaws of PlayAGS, Inc., Adopted January 29, 2018 (incorporated by reference to Exhibit 3.2 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 5, 2019). |
| *4.6 | Description of Capital Stock. |
| 10.1 | 2014 Managerial Incentive Plan, (incorporated by reference to Exhibit 10.1 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 31, 2015). |
| 10.2 | AP Gaming Holdco, Inc. 2014 Long-Term Incentive Plan, (incorporated by reference to Exhibit 10.2 to PlayAGS, Inc.'s Current Report on Form 8-K filed on May 5, 2014) |
| 10.3 | Form of Option Agreement, (incorporated by reference to Exhibit 10.3 to PlayAGS, Inc.'s Current Report on Form 8-K filed on May 5, 2014). |
| 10.4 | Form of Subscription Agreement, (incorporated by reference to Exhibit 10.3 to PlayAGS, Inc.'s Current Report on Form 8-K filed on May 5, 2014). |
| 10.5 | PlayAGS, Inc. Omnibus Incentive Plan, (incorporated by reference to Exhibit 10.9 to PlayAGS, Inc.'s Amended Registration Statement on Form S-1/A filed on January 16, 2018). |
| 10.6 | PlayAGS, INC. Omnibus Incentive Plan, Director Stock Award Agreement, (incorporated by reference to Exhibit 10.2 to PlayAGS, Inc.'s Quarterly Report on Form 10-Q filed on November 8, 2018). |
| 10.7 | PlayAGS, INC. Omnibus Incentive Plan, Non-Qualified Option Award Agreement, (incorporated by reference to Exhibit 10.3 to PlayAGS, Inc.'s Quarterly Report on Form 10-Q filed on November 8, 2018). |
| 10.8 | PlayAGS, INC. Omnibus Incentive Plan, Restricted Stock Unit Award Agreement, (incorporated by reference to Exhibit 10.4 to PlayAGS, Inc.'s Quarterly Report on Form 10-Q filed on November 8, 2018). |
| 10.9 | Employment Agreement, dated April 28, 2014, by and between David Lopez and AP Gaming Holdco, Inc. (incorporated by reference to Exhibit 10.5 to PlayAGS, Inc.'s Current Report on Form 8-K filed on May 5, 2014). |
| 10.10 | Nonqualified Stock Option Agreement, dated April 28, 2014, by and between AP Gaming Holdco, Inc. and David Lopez, (incorporated by reference to Exhibit 10.6 to PlayAGS, Inc.'s Current Report on Form 8-K filed on May 5, 2014). |
| 10.11 | Restricted Stock Agreement, dated April 28, 2014, by and between AP Gaming Holdco, Inc. and David Lopez, (incorporated by reference to Exhibit 10.7 to PlayAGS, Inc.'s Current Report on Form 8-K filed on May 5, 2014). |
| 10.12 | Employment Agreement, dated as September 1, 2018, by and between AGS, LLC and Sigmund Lee (incorporated by reference to Exhibit 10.13 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 5, 2019). |
| *10.13 | Amendment to Employment Agreement, dates as December 31, 2019, by and between AGS, LLC and Sigmund Lee |
| 10.14 | Nonqualified Time-Based Stock Option Agreement, dated July 17, 2015, by and between AP Gaming Holdco, Inc. and Sigmund Lee, (incorporated by reference to Exhibit 10.20 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 10, 2016). |
| 10.15 | Nonqualified Performance-Based Stock Option Agreement, dated July 17, 2015, by and between AP Gaming Holdco, Inc. and Sigmund Lee, (incorporated by reference to Exhibit 10.21 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 10, 2016). |
| 10.16 | Nonqualified Stock Option Agreement, dated January 18, 2016, by and between AP Gaming Holdco, Inc. and Sigmund Lee, (incorporated by reference to Exhibit 10.21 to PlayAGS, Inc.'s Registration Statement on Form S-1 filed on December 19, 2017). |
| 10.17 | Employment Agreement, dated October 21, 2018, by and between Kimo Akiona and AGS, LLC (incorporated by reference to Exhibit 10.16 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 5, 2019). |
| 10.18 | Nonqualified Stock Option Agreement, dated March 11, 2015, by and between AP Gaming Holdco, Inc. and Kimo Akiona, (incorporated by reference to Exhibit 10.21 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 10, 2017). |
| 10.19 | First Lien Credit Agreement, dated as of June 6, 2017, among AP Gaming Holdings, LLC, as Holdings, AP Gaming I, LLC, as Borrower, the lenders party thereto, Jefferies Finance LLC, as Administrative Agent, Jefferies Finance LLC and Macquarie Capital (USA) Inc., as Joint Lead Arrangers and Joint Bookrunners, and Apollo Global Securities, LLC, as Co-Manager, (incorporated by reference to Exhibit 10.1 to PlayAGS, Inc.'s Current Report on Form 8-K filed on June 12, 2017). |

- 10.20 [Incremental Assumption and Amendment Agreement, dated as of February 7, 2018, by and among AP Holdings, LLC, AP Gaming I, LLC, each subsidiary loan party listed on the signature pages thereof, Finance LLC and the lenders from time to time party thereto, \(incorporated by reference to Exhibit 10.1 to PlayAGS, Inc.'s Current Report on Form 8-K filed on February 8, 2018\).](#)
- 10.21 [Incremental Assumption and Amendment Agreement No. 2, dated as of October 5, 2018, by and among AP Gaming Holdings, LLC, AP Gaming I, LLC, each subsidiary loan party listed on the signature pages thereof, Jefferies Finance LLC and the lenders from time to time party thereto, \(incorporated by reference to Exhibit 10.1 to PlayAGS, Inc.'s Current Report on Form 8-K filed on October 9, 2018\).](#)
- 10.22 [Collateral Agreement among AP Gaming, LLC, each Subsidiary Party and Jefferies Finance, LLC, dated as of June 6, 2017, \(incorporated by reference to Exhibit 10.4 to PlayAGS, Inc.'s Registration Statement on Form S-1 filed on December 19, 2017\).](#)
- 10.23 [Holdings Guarantee and Pledge Agreement, by and among AP Gaming Holdings, LLC and Jefferies Finance LLC, dated as of June 6, 2017, \(incorporated by reference to Exhibit 10.5 to PlayAGS, Inc.'s Registration Statement on Form S-1 filed on December 19, 2017\).](#)
- 10.24 [Subsidiary Guarantee between AP Gaming II, Inc., AP Gaming Acquisition, LLC, AGS Capital, LLC, AGS LLC, AGS Partners, LLC, AGS Illinois, LLP, AP Gaming NV, LLC and Jefferies Finance, LLC dated as of June 6, 2017, \(incorporated by reference to Exhibit 10.6 to PlayAGS, Inc.'s Registration Statement on Form S-1 filed on December 19, 2017\).](#)
- 10.25 [Amended and Restated Securityholders Agreement, by and among Apollo Gaming Holdings, L.P., AP Gaming VoteCo, LLC, PlayAGS, Inc. \(f/k/a AP Gaming Holdco, Inc.\) and the other Holders party thereto, dated January 29, 2018 \(incorporated by reference to Exhibit 10.24 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 5, 2019\).](#)

- 10.26 [Stockholders Agreement, by and among PlayAGS, Inc., Apollo Gaming Holdings, L.P. and AP Gaming VoteCo, LLC, dated January 29, 2018, \(incorporated by reference to Exhibit 10.25 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 5, 2019\).](#)
- 10.27 [Irrevocable Proxy of AP Gaming VoteCo, LLC, dated January 29, 2018, \(incorporated by reference to Exhibit 10.26 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 5, 2019\).](#)
- 10.28 [Amendment Agreement No. 3, dated as of August 30, 2019, by and among AP Gaming Holdings, LLC, AP Gaming I, LLC, Jefferies Finance LLC and each of the Revolving Facility Lenders party thereto, \(incorporated by reference to Exhibit 10.1 to PlayAGS, Inc.'s Current Report on Form 8-K filed on September 4, 2019\).](#)
- *21.1 [Subsidiaries of PlayAGS, Inc.](#)
- *23.1 [Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.](#)
- *31.1 [Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- *31.2 [Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- *32 [Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.IN XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PLAYAGS, INC.

Date: March 4, 2020

By: /s/ KIMO AKIONA
Name: Kimo Akiona
Chief Financial Officer, Chief Accounting Officer and
Treasurer,
Title: *(Principal Financial and Accounting Officer)*

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DAVID LOPEZ</u> David Lopez	<i>Chief Executive Officer, President and Director (Principal Executive Officer)</i>	March 4, 2020
<u>/s/ KIMO AKIONA</u> Kimo Akiona	<i>Chief Financial Officer, Chief Accounting Officer and Treasurer (Principal Financial and Accounting Officer)</i>	March 4, 2020
<u>/s/ DAVID SAMBUR</u> David Sambur	<i>Director</i>	March 4, 2020
<u>/s/ DANIEL COHEN</u> Daniel Cohen	<i>Director</i>	March 4, 2020
<u>/s/ YVETTE E. LANDAU</u> Yvette E. Landau	<i>Director</i>	March 4, 2020
<u>/s/ ADAM CHIBIB</u> Adam Chibib	<i>Director</i>	March 4, 2020
<u>/s/ GEOFF FREEMAN</u> Geoff Freeman	<i>Director</i>	March 4, 2020
<u>/s/ ANNA MASSION</u> Anna Massion	<i>Director</i>	March 4, 2020

ITEM 1. FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of PlayAGS, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PlayAGS, Inc. and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive loss, of changes in stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinion

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

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

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

/s/ PricewaterhouseCoopers LLP

Las Vegas, Nevada
March 4, 2020

We have served as the Company's auditor since 2016.

PLAYAGS, INC.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share and per share data)

	December 31,	
	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 13,162	\$ 70,726
Restricted cash	20	78
Accounts receivable, net of allowance of \$723 and \$885 respectively	61,224	44,704
Inventories	32,875	27,438
Prepaid expenses	2,983	3,566
Deposits and other	5,332	4,231
Total current assets	115,596	150,743
Property and equipment, net	103,598	91,547
Goodwill	287,049	277,263
Intangible assets	230,451	196,898
Deferred tax asset	4,965	2,544
Operating lease assets	11,543	—
Other assets	9,176	12,347
Total assets	\$ 762,378	\$ 731,342
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 15,598	\$ 14,821
Accrued liabilities	34,840	26,659
Current maturities of long-term debt	6,038	5,959
Total current liabilities	56,476	47,439
Long-term debt	518,689	521,924
Deferred tax liability - non-current	1,836	1,443
Operating lease liabilities, long-term	11,284	—
Other long-term liabilities	40,309	24,732
Total liabilities	628,594	595,538
Commitments and contingencies (Note 13)		
Stockholders' equity		
Preferred stock at \$0.01 par value; 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock at \$0.01 par value; 450,000,000 shares authorized at December 31, 2019 and December 31, 2018; 35,534,558 and 35,353,296 shares issued and outstanding at December 31, 2019 and 2018, respectively.	355	353
Additional paid-in capital	371,311	361,628
Accumulated deficit	(235,474)	(222,403)
Accumulated other comprehensive loss	(2,408)	(3,774)
Total stockholders' equity	133,784	135,804
Total liabilities and stockholders' equity	\$ 762,378	\$ 731,342

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

PLAYAGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(amounts in thousands, except per share data)

	Year ended December 31,		
	2019	2018	2017
Revenues			
Gaming operations	\$ 210,534	\$ 201,809	\$ 170,252
Equipment sales	94,180	83,490	41,703
Total revenues	<u>304,714</u>	<u>285,299</u>	<u>211,955</u>
Operating expenses			
Cost of gaming operations ⁽¹⁾	40,955	39,268	31,742
Cost of equipment sales ⁽¹⁾	45,513	39,670	19,847
Selling, general and administrative	61,785	63,038	44,015
Research and development	34,338	31,745	25,715
Write-downs and other charges	6,912	8,753	4,485
Depreciation and amortization	91,474	77,535	71,649
Total operating expenses	<u>280,977</u>	<u>260,009</u>	<u>197,453</u>
Income from operations	23,737	25,290	14,502
Other expense (income)			
Interest expense	36,248	37,607	55,511
Interest income	(163)	(207)	(108)
Loss on extinguishment and modification of debt	—	6,625	9,032
Other expense (income)	4,622	10,488	(2,938)
Loss before income taxes	<u>(16,970)</u>	<u>(29,223)</u>	<u>(46,995)</u>
Income tax benefit	5,449	8,377	1,889
Net loss	<u>(11,521)</u>	<u>(20,846)</u>	<u>(45,106)</u>
Less: Net income attributable to non-controlling interests	(231)	—	—
Net loss attributable to PlayAGS, Inc.	<u>(11,752)</u>	<u>(20,846)</u>	<u>(45,106)</u>
Foreign currency translation adjustment	1,366	29	743
Total comprehensive loss	<u>\$ (10,386)</u>	<u>\$ (20,817)</u>	<u>\$ (44,363)</u>
Basic and diluted loss per common share:			
Basic	\$ (0.33)	\$ (0.61)	\$ (1.94)
Diluted	\$ (0.33)	\$ (0.61)	\$ (1.94)
Weighted average common shares outstanding:			
Basic	35,424	34,404	23,208
Diluted	35,424	34,404	23,208

(1) exclusive of depreciation and amortization

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

PLAYAGS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- Controlling Interests	Total Stockholders' Equity
Balance at January 1, 2017	14,931,529	149	177,276	(156,451)	(4,546)	—	16,428
Net loss	—	—	—	(45,106)	—	—	(45,106)
Foreign currency translation adjustment	—	—	—	—	743	—	743
Balance at December 31, 2017	14,931,529	149	177,276	(201,557)	(3,803)	—	(27,935)
Net loss	—	—	—	(20,846)	—	—	(20,846)
Foreign currency translation adjustment	—	—	—	—	29	—	29
Stock-based compensation expense	—	—	10,933	—	—	—	10,933
Stock split (1.5543-for-one)	8,276,547	83	(83)	—	—	—	—
Reclassification of management shares	170,712	2	1,319	—	—	—	1,321
Vesting of restricted stock	112,286	—	—	—	—	—	—
Stock option exercise	74,722	1	773	—	—	—	774
Issuance of common stock	11,787,500	118	171,410	—	—	—	171,528
Balance at December 31, 2018	35,353,296	353	361,628	(222,403)	(3,774)	—	135,804
Net loss	—	—	—	(11,752)	—	231	(11,521)
Foreign currency translation adjustment	—	—	—	—	1,366	—	1,366
Business acquisitions	—	—	—	—	—	71	71
Cash distributions to noncontrolling interest owners	—	—	—	—	—	(302)	(302)
Stock-based compensation expense	—	—	9,001	—	—	—	9,001
Vesting of restricted stock	231,543	2	(2)	—	—	—	—
Stock option exercises	70,288	1	684	—	—	—	685
Share repurchase	(120,569)	(1)	—	(1,319)	—	—	(1,320)
Issuance of common stock	—	—	—	—	—	—	—
Balance at December 31, 2019	35,534,558	355	371,311	(235,474)	(2,408)	—	133,784

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

PLAYAGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	Year ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net loss	\$ (11,521)	\$ (20,846)	\$ (45,106)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	91,474	77,535	71,649
Accretion of contract rights under development agreements and placement fees	6,378	4,552	4,680
Amortization of deferred loan costs and discount	1,917	1,826	2,976
Payment-in-kind interest capitalized	—	—	15,935
Payment-in-kind interest payments	—	(37,624)	(2,698)
Write-off of deferred loan cost and discount	—	3,876	3,294
Stock-based compensation expense	9,001	10,933	—
Provision (benefit) for bad debts	294	(441)	651
Loss on disposition of assets	1,068	1,963	3,901
Impairment of assets	5,343	6,089	584
Fair value adjustment of contingent consideration	501	701	—
Deferred income tax	(1,927)	(970)	(7,062)
Changes in assets and liabilities related to operations:			
Accounts receivable	(15,033)	(11,488)	(8,348)
Inventories	490	4,907	(1,636)
Prepaid expenses	715	(895)	(599)
Deposits and other	(449)	(748)	(374)
Other assets, non-current	6,565	12,204	(2,290)
Accounts payable and accrued liabilities	(6,827)	(6,063)	8,451
Net cash provided by operating activities	<u>87,989</u>	<u>45,511</u>	<u>44,008</u>
Cash flows from investing activities			
Customer notes receivable	(2,382)	—	—
Business acquisitions, net of cash acquired	(54,935)	(4,452)	(63,850)
Purchase of intangible assets	(6,295)	(1,119)	(1,226)
Software development and other expenditures	(14,350)	(10,460)	(7,664)
Proceeds from disposition of assets	450	519	514
Purchases of property and equipment	(50,420)	(54,602)	(48,585)
Net cash used in investing activities	<u>(127,932)</u>	<u>(70,114)</u>	<u>(120,811)</u>
Cash flows from financing activities			
Proceeds from issuance of first lien credit facilities	—	—	448,725
Proceeds from incremental term loans	—	29,874	65,000
Repayment of first lien credit facilities	(5,387)	(5,211)	(2,413)
Repayment of senior secured credit facilities	—	(115,000)	(410,655)
Repayment of seller notes	—	—	(12,401)
Payments on equipment long term note payable and capital leases	(1,396)	(2,883)	(2,372)
Payment of deferred loan costs	—	(41)	(3,267)
Payment of financed placement fee obligations	(8,215)	(3,628)	(3,807)
Payment of previous acquisition obligation	(1,748)	—	(128)
Proceeds from stock option exercise	685	774	—
Proceeds from issuance of common stock	—	176,341	—
Proceeds from employees in advance of common stock issuance	—	—	25
Initial public offering costs	—	(4,160)	(653)
Repurchase of shares	(1,320)	—	—
Distributions to non-controlling interest owners	(302)	—	—
Net cash (used in) provided by financing activities	<u>(17,683)</u>	<u>76,066</u>	<u>78,054</u>
Effect of exchange rates on cash, cash equivalents and restricted cash	4	(1)	14
(Decrease) increase in cash, cash equivalents and restricted cash	(57,622)	51,462	1,265
Cash, cash equivalents and restricted cash, beginning of period	<u>70,804</u>	<u>19,342</u>	<u>18,077</u>
Cash, cash equivalents and restricted cash, end of period	<u>\$ 13,182</u>	<u>\$ 70,804</u>	<u>\$ 19,342</u>
Supplemental cash flow information:			
Cash paid during the period for interest	\$ 33,567	\$ 35,392	\$ 35,890
Cash paid during the period for taxes	\$ 1,548	\$ 1,742	\$ 1,157
Non-cash investing and financing activities:			
Non-cash consideration given in business acquisition	\$ —	\$ 500	\$ 2,600
Intangible assets obtained under placement fee arrangements	\$ 40,338	\$ 2,000	\$ 4,866
Leased assets obtained in exchange for new finance lease liabilities	\$ 1,326	\$ 1,454	\$ 368
Leased assets obtained in exchange for new operating lease liabilities	\$ 13,048	\$ —	\$ —

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

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PlayAGS, Inc. (the "Company," "PlayAGS," "we," "us," or "our") is a leading designer and supplier of gaming products and services for the gaming industry. We operate in legalized gaming markets across the globe and provide state-of-the-art, value-add products in three distinct segments: Electronic Gaming Machines ("EGM"), which includes server-based systems and back-office systems that are used by Class II Native American, Mexico and the Philippines gaming jurisdictions and Class III Native American, commercial and charitable jurisdictions; Table Products ("Table Products"), which includes live felt table games, side-bets and progressives as well as our newly introduced card shuffler, "Dex S"; and Interactive Games ("Interactive"), which provides social casino games on desktop and mobile devices (our "Interactive Social" reporting unit) as well as a platform for content aggregation used by real-money gaming ("RMG") and sports-betting partners (our "RMG Interactive" reporting unit). Each segment's activities include the design, development, acquisition, manufacturing, marketing, distribution, installation and servicing of a distinct product line.

The Company filed a Registration Statement on Form 10 on December 19, 2013, which went effective under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on December 19, 2013. On January 30, 2018, we completed the initial public offering of 10,250,000 shares of our common stock, at a public offering price of \$16.00 per share (the "IPO").

On February 27, 2018, we sold an additional 1,537,500 shares of common stock, pursuant to the underwriters' exercise in full of the over-allotment option.

Electronic Gaming Machines

Our EGM segment offers a selection of video slot titles developed for the global marketplace, and EGM cabinets which include the *Alora*, *Orion Portrait*, *Orion Rise*, *Orion Upright*, *ICON*, *Big Red* ("Colossal Diamonds") and our *Orion Slant*. In addition to providing complete EGM units, we offer conversion kits that allow existing game titles to be converted to other game titles offered within that operating platform.

Table Products

Our Table Products include both internally developed and acquired proprietary table products, side-bets, progressives, and table technology related to blackjack, poker, baccarat, craps and roulette. We have acquired a number of popular proprietary brands, including In Bet Gaming ("In Bet"), *Buster Blackjack*, *Double Draw Poker* and *Criss Cross Poker* that are based on traditional well-known public domain games such as blackjack and poker; however, these proprietary games provide intriguing betting options that offer more excitement and greater volatility to the player, ultimately enhancing our casino customers' profitability. In addition, we offer a single deck card shuffler for poker tables, *Dex S* and recently introduced our second shuffler, the *Pax S* single-deck pack shuffler, which we plan to launch in 2020.

Interactive

We now offer a platform for business-to-business ("B2B") content aggregation used by RMG and sports-betting partners, by which we offer our proprietary game content as well as third party content to online casino operators. Our business-to-consumer ("B2C") social casino games are primarily delivered through our mobile app, *Lucky Play Casino*. The app contains several game titles available for consumers to play for fun and with coins that they purchase through the app. Some of our most popular social casino games include content that is also popular in land-based settings such as *Golden Wins*, *Royal Wheels* and *So Hot*. We have expanded into the B2B space through our core app, *Lucky Play Casino*, whereby we white label our social casino game product and enable our land-based casino customers to brand the social casino gaming product with their own casino name.

Principles of Consolidation

The accompanying consolidated financial statements include the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make decisions based upon estimates, assumptions, and factors considered relevant to the circumstances. Such decisions include the selection of applicable accounting principles and the use of judgment in their application, the results of which impact reported amounts and disclosures. Changes in future economic conditions or other business circumstances may affect the outcomes of the estimates and assumptions. Accordingly, actual results could differ materially from those anticipated.

Revenue Recognition

In May 2014, the FASB issued an accounting standards update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue from contracts with customers. The amendment outlines a single comprehensive model for entities to depict the transfer of goods or services to customers in amounts that reflect the payment to which a company expects to be entitled in exchange for those goods or services. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 to annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The ASU may be adopted using either a full retrospective transition method or a modified retrospective transition method and was adopted by the Company on January 1, 2018. The Company used the modified retrospective application approach and the adoption of the new revenue standards did not have a material impact on its consolidated financial statements. Therefore, we did not include our accounting policies

below related to the previous accounting standards, which were applicable to 2017. Related disclosures of the Company's revenue recognition policy have been updated above under *Revenue Recognition* to reflect the adoption of the new standards.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Leasing of equipment in both our EGM and Table Products segments is accounted for under lease accounting guidance in ASC 842, "Leases" (ASC 842) and is recorded in gaming operations revenue. Our remaining revenue streams are accounted for under ASC 606, and the ASUs described above and include equipment sales in our EGM and to a lesser extent in our Table Products segments is recorded in equipment sales. Revenue earned in our Interactive segment is recorded in gaming operations revenue.

The following table disaggregates our revenues by type within each of our segments (amounts in thousands):

	Year ended December 31,		
	2019	2018	2017
EGM			
Gaming operations	\$ 196,101	\$ 187,809	\$ 158,335
Equipment sales	93,541	83,216	41,596
Total	\$ 289,642	\$ 271,025	\$ 199,931
Table Products			
Gaming operations	\$ 9,555	\$ 7,377	\$ 3,958
Equipment sales	639	274	107
Total	\$ 10,194	\$ 7,651	\$ 4,065
Interactive (gaming operations)			
Social	\$ 3,319	\$ 6,147	\$ 7,959
RMG	1,559	476	—
Total	\$ 4,878	\$ 6,623	\$ 7,959

Gaming Operations

Gaming operations revenue is earned by providing customers with gaming machines, gaming machine content licenses, table products, back-office equipment and linked progressive systems, which are collectively referred to as gaming equipment, under participation arrangements. The participation arrangements convey the right to use the equipment (i.e., gaming machines and related integral software) for a stated period of time, which is typically no longer than one to three years upon which the contract continues on a month-to-month basis thereafter. In some instances, the Company will enter arrangements for longer periods of time; however, many of these arrangements include the ability of the customer to cancel the contract and return the games to the Company, a provision which renders their contracts effectively month-to-month contracts. The Company will also enter into lease contracts with a revenue sharing arrangement whereby the lease payments due from the customer are variable. Primarily due to these factors, our participation arrangements are accounted for as operating leases. In some instances, we will offer a free trial period during which no revenue is recognized. If during or at the conclusion of the trial period the customer chooses to enter into a lease for the gaming equipment, we commence revenue recognition according to the terms of the agreement.

Under participation arrangements, the Company retains ownership of the gaming equipment installed at the customer facilities and receives either revenue based on a percentage of the win per day generated by the gaming equipment or a fixed daily fee. Thus, in our consolidated financial statements the Company records revenue monthly related to these arrangements and the gaming equipment is recorded in property and equipment, net on our balance sheet and depreciated over the expected life of the gaming equipment.

The majority of the Company's leases require the Company to provide maintenance throughout the entire term of the lease. In some cases, a performance guarantee exists that, if not met, provides the customer with the right to return the gaming machines to the Company. This performance guarantee is considered a cancellation clause, a provision which renders their contracts effectively month-to-month contracts. Accordingly, the Company accounts for these contracts in a similar manner with its other operating leases as described above.

Gaming operations revenue is also earned from the licensing of table product content and is earned and recognized primarily on a fixed monthly rate. Our B2C social casino products earn revenue from the sale of virtual coins or chips, which is recorded when the purchased coins or chips are used by the customer. B2C social casino revenue is presented gross of the platform fees. B2B social casino products earn revenue primarily based on a percentage of the monthly revenue generated by the white label casino apps that we build and operate for our customers. RMG revenue is earned primarily based on a percentage of the revenue produced by the games on our platform as well as monthly platform fees and initial integration fees. RMG revenue is presented net of payments to game and content suppliers.

Equipment Sales

Revenues from contracts with customers are recognized and recorded when the following criteria are met:

- We have a contract that has been approved by both the customer and the Company. Our contracts specify the products being sold and payment terms and are recognized when it is probable that we will collect substantially all of the contracted amount; and
- Control has been transferred and services have been rendered in accordance with the contract terms.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Equipment sales are generated from the sale of gaming machines and table products and licensing rights to the integral game content software that is installed in the related equipment, parts, and other ancillary equipment. Also included within the deliverables are delivery, installation and training, all of which occur within a few days of arriving at the customer location. Gaming sales do not include maintenance beyond a standard warranty period. The recognition of revenue from the sale of gaming devices occurs as the customer obtains control of the product and all other revenue recognition criteria have been satisfied. Our contracts include a fixed transaction price. Amounts are due from customers within 30 to 90 days of the invoice date and to a lesser extent we offer extended payment terms of 12 to 24 months with payments due monthly during the extended payment period.

The Company enters into revenue arrangements that may consist of multiple performance obligations, which are typically multiple distinct products that may be shipped to the customer at different times. For example, sales arrangements may include the sale of gaming machines and table products to be delivered upon the consummation of the contract and additional game content conversion kits that will be delivered at a later date when requested by the customer to replace the game content on the customer's existing gaming machines. Products are identified as separate performance obligations if they are distinct, which occurs if the customer can benefit from the product on its own and is separately identifiable from other promises in the contract.

Revenue is allocated to the separate performance obligations based on relative standalone selling prices determined at contract inception. Standalone selling prices are primarily determined by prices that we charge for the products when they are sold separately. When a product is not sold separately, we determine the standalone selling price with reference to our standard pricing policies and practices. We made an accounting policy election to exclude from the measurement of the transaction price, sales taxes and all other items of a similar nature, and also elected to account for shipping and handling activities as a fulfillment of our promise to transfer the goods. Accordingly, shipping and handling costs are included in cost of sales.

Revenue allocated to undelivered performance obligations is recorded as a contract liability and the balance of our contract liability was not material as of December 31, 2019 and 2018.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits held at major banks and other marketable securities with original maturities of 90 days or less.

Restricted Cash

Restricted cash amounts represent funds held in escrow as collateral for the Company's surety bonds for various gaming authorities.

Receivables, Allowance for Doubtful Accounts

Accounts receivable are stated at face value less an allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts related to accounts receivable and notes receivable, which are non-interest bearing, deemed to have a high risk of collectability. The Company reviews the accounts receivable and notes receivable on a monthly basis to determine if any receivables will potentially be uncollectible. The Company analyzes historical collection trends and changes in the customers' payment patterns, customer concentration, and credit worthiness when evaluating the adequacy of the allowance for doubtful accounts. The Company includes any receivable balances that are determined to be uncollectible in the overall allowance for doubtful accounts. Changes in the assumptions or estimates reflecting the collectability of certain accounts could materially affect the allowance for both accounts and notes receivable.

The following provides financial information concerning the change in our allowance for doubtful accounts (in thousands):

	Allowance for Accounts Receivable, Year ended December 31, 2019			
	Beginning Balance	Charge-offs	Provision (Benefit)	Ending Balance
Allowance for doubtful accounts	\$ 885	\$ (456)	\$ 294	\$ 723

	Allowance for Accounts Receivable, Year ended December 31, 2018			
	Beginning Balance	Charge-offs	Provision	Ending Balance
Allowance for doubtful accounts	\$ 1,462	\$ (136)	\$ (441)	\$ 885

	Allowance for Accounts Receivable, Year ended December 31, 2017			
	Beginning Balance	Charge-offs	Provision	Ending Balance
Allowance for doubtful accounts	\$ 1,972	\$ (1,161)	\$ 651	\$ 1,462

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Inventories

Inventories consist primarily of parts and supplies that are used to repair and maintain machinery and equipment as well as EGMs in production and finished goods held for sale. Inventories are stated at net realizable value. Cost of inventories is determined using the first-in, first-out (“FIFO”) method for all components of inventory. The Company regularly reviews inventory quantities and updates estimates for the net realizable value of inventories. This process includes examining the carrying values of parts and ancillary equipment in comparison to the current fair market values for such equipment (less costs to sell or dispose). Some of the factors involved in this analysis include the overall levels of the inventories, the current and projected sales levels for such products, the projected markets for such products and the costs required to sell the products, including refurbishment costs. Changes in the assumptions or estimates could materially affect the inventory carrying value. As of December 31, 2019 and December 31, 2018, the value of raw material inventory was \$29.1 million and \$22.3 million, respectively. As of December 31, 2019 and December 31, 2018, the value of finished goods inventory was \$3.8 million and \$5.1 million, respectively. There was no work in process material as of December 31, 2019 and December 31, 2018.

Property and Equipment

The cost of gaming equipment, consisting of fixed-base player terminals, file servers and other support equipment as well as other property and equipment, is depreciated over their estimated useful lives, using the straight-line method for financial reporting. The Company capitalizes costs incurred for the refurbishment of used gaming equipment that is typically incurred to refurbish a machine in order to return it to its customer location. The refurbishments extend the life of the gaming equipment beyond the original useful life. Repairs and maintenance costs are expensed as incurred. The Company routinely evaluates the estimated lives used to depreciate assets. The estimated useful lives are as follows:

Gaming equipment (in years)	2 to 6
Other property and equipment (in years)	3 to 6

Financed leased cars and leasehold improvements are amortized / depreciated over the life of the contract.

The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The Company groups long-lived assets for impairment analysis at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities, which is typically at the individual gaming machine level or at the cabinet product line level. Impairment testing is performed and losses are estimated when indicators of impairment are present and the estimated undiscounted cash flows are not sufficient to recover the assets’ carrying amount.

When the estimated undiscounted cash flows are not sufficient to recover the asset’s carrying amount, an impairment loss is measured to the extent the fair value of the asset is less than its carrying amount.

The Company measures recoverability of assets to be held and used by comparing the carrying amount of an asset to future cash flows expected to be generated by the asset. The Company’s policy is to impair, when necessary, excess or obsolete gaming machines on hand that it does not expect to be used. Impairment is based upon several factors, including estimated forecast of gaming machine demand for placement into casinos. While the Company believes that the estimates and assumptions used in evaluating the carrying amount of these assets are reasonable, different assumptions could affect either the carrying amount or the estimated useful lives of the assets, which could have a significant impact on the results of operations and financial condition.

Intangible Assets

The Company reviews its identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses are recognized for identifiable intangibles, other than goodwill, when indicators of impairment are present and the estimated undiscounted cash flows are not sufficient to recover the assets’ carrying amount.

When the estimated undiscounted cash flows are not sufficient to recover the intangible asset’s carrying amount, an impairment loss is measured to the extent the fair value of the asset is less than its carrying amount.

Certain trade names have an indefinite useful life and the Company tests these trade names for possible impairment at least annually, on October 1, or whenever events or changes in circumstances indicate that the carrying value may be impaired. We perform a qualitative assessment to determine if it is more likely than not that the fair value of the asset is less than its carrying amount. If we believe, as a result of our qualitative assessment, that it is more likely than not that the fair value of the asset is less than its carrying amount, the quantitative impairment test is required.

Costs of Capitalized Computer Software

Internally developed gaming software represents the Company’s internal costs to develop gaming titles to utilize on the Company’s gaming machines. Internally developed gaming software is stated at cost and amortized over the estimated useful lives of the software, using the straight-line method. Software development costs are capitalized once technological feasibility has been established and are amortized when the software is placed into service. The gaming software we develop reaches technological feasibility when a working model of the gaming software is available. Any subsequent software maintenance costs, such as bug fixes and subsequent testing, are expensed as incurred. Discontinued software development costs are expensed when the determination to discontinue is made. Software development costs are amortized over the expected life of the title or group of titles, if applicable, to amortization expense.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

On a quarterly basis, or more frequently if circumstances warrant, the Company compares the net book value of its internally developed gaming software to the net realizable value on a title or group of title basis. The net realizable value is determined based upon certain assumptions, including the expected future revenues and net cash flows of the gaming titles or group of gaming titles utilizing that software, if applicable.

Goodwill

The excess of the purchase price of an acquired business over the estimated fair value of the assets acquired and the liabilities assumed is recorded as goodwill. The Company tests for possible impairment of goodwill at least annually, on October 1, or when circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company has the option to begin with a qualitative assessment, commonly referred to as "Step 0", to determine whether it is more likely than not that the reporting unit's fair value of goodwill is less than its carrying value. This qualitative assessment may include, but is not limited to, reviewing factors such as the general economic environment, industry and market conditions, changes in key assumptions used since the most recently performed valuation and overall financial performance of the reporting units. If the Company determines that it is more likely than not that a reporting unit's fair value is less than its carrying value, the Company performs a quantitative goodwill impairment analysis, and depending upon the results of that measurement, the recorded goodwill may be written down and charged to income from operations when the carrying amount of the reporting unit exceeds the fair value of the reporting unit. In the second quarter of 2019, we recorded an impairment of goodwill related to the RMG Interactive reporting unit in the amount of \$3.5 million, described in Note 4. In the fourth quarter of 2018, we recorded an impairment of goodwill related to the Social Interactive reporting unit in the amount of \$4.8 million, also described in Note 4.

Acquisition Accounting

The Company applies the provisions of ASC 805, "*Business Combinations*" (ASC 805), in accounting for business acquisitions. It requires us to recognize separately from goodwill the fair value of assets acquired and liabilities assumed on the acquisition date. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. Significant estimates and assumptions are required to value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable. These estimates are inherently uncertain and subject to refinement and typically include the calculation of an appropriate discount rate and projection of the cash flows associated with each acquired asset. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Fair Value of Financial Instruments

The Company applies the provisions of ASC 820, "*Fair Value Measurements*" to its financial assets and liabilities. Fair value is defined as a market-based measurement intended to estimate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. ASC 820 also established a fair value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. These inputs are categorized as follows:

- Level 1 - quoted prices in an active market for identical assets or liabilities;
- Level 2 - quoted prices in an active market for similar assets or liabilities, inputs other than quoted prices that are observable for similar assets or liabilities, inputs derived principally from or corroborated by observable market data by correlation or other means; and
- Level 3 - valuation methodology with unobservable inputs that are significant to the fair value measurement.

The carrying values of the Company's cash and cash equivalents, restricted cash, receivables and accounts payable approximate fair value because of the short term maturities of these instruments. The fair value of our long-term debt is based on the quoted market prices for similar instruments (Level 2 inputs). The estimated fair value of our long-term debt was \$534.6 million and \$528.1 million as of December 31, 2019 and 2018, respectively.

Accounting for Income Taxes

We conduct business globally and are subject to income taxes in U.S. federal, state, local, and foreign jurisdictions. Determination of the appropriate amount and classification of income taxes depends on several factors, including estimates of the timing and probability of realization of deferred income taxes, reserves for uncertain income tax positions and income tax payment timing.

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Taxes on income of our foreign subsidiaries are provided at the tax rates applicable to the tax jurisdictions in which they are located. Future tax benefits are recognized to the extent that realization of those benefits is considered more likely than not and a valuation allowance is established for deferred tax assets which do not meet this threshold.

The recoverability of certain deferred tax assets is based in part on estimates of future income and the timing of temporary differences, and the failure to fully realize such deferred tax assets could result in a higher tax provision in future periods.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We apply the accounting guidance to our uncertain tax positions and under the guidance, we may recognize a tax benefit from an uncertain position only if it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the issue. The amount recognized in the financial statements is the largest benefit that we believe has greater than a 50% likelihood of being realized upon settlement.

We are required to make significant judgments when evaluating our uncertain tax positions and the related tax benefits. We believe our assumptions are reasonable; however, there is no guarantee that the final outcome of the related matters will not differ from the amounts reflected in our income tax provisions and accruals. We adjust our liability for uncertain tax positions based on changes in facts and circumstances such as the closing of a tax audit or changes in estimates. Our income tax provision may be impacted to the extent that the final outcome of these tax positions is different than the amounts recorded.

Contingencies

The Company assesses its exposures to loss contingencies including claims and legal proceedings and accrues a liability if a potential loss is considered probable and the amount can be estimated. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, if the actual loss from a contingency differs from management's estimate, there could be a material impact on the results of operations or financial position. Operating expenses, including legal fees, associated with contingencies are expensed when incurred.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and cash equivalents and accounts receivable, net. Cash equivalents are investment-grade, short-term debt instruments consisting of treasury bills which are maintained with high credit quality financial institutions under repurchase agreements. Cash and cash equivalents are in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. As of December 31, 2019 and 2018, the Company did not have cash equivalents.

Revenue from gaming operations is concentrated in the Class II gaming and casino industry, primarily located in Oklahoma and Alabama. For the years ended December 31, 2019, 2018 and 2017, approximately 9%, 11%, and 11% of our total revenues were derived from one customer, respectively. Another customer accounted for approximately 8%, 9% and 11% of our total revenues for the years ended December 31, 2019, 2018 and 2017, respectively. For the years ended December 31, 2019, 2018 and 2017 approximately 9%, 9% and 11% of our total revenues were derived in Mexico, respectively.

As of December 31, 2019, one customer represented 11% of our total accounts receivables balance. As of December 31, 2018, no customer's receivable balance exceeded 10% of our total receivables balance.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars at the period end rate of exchange for asset and liability accounts and the weighted average rate of exchange for income statement accounts. The effects of these translations are recorded as a component of accumulated other comprehensive (loss) income in stockholders' equity.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2019, 2018 and 2017 were \$0.6 million, \$0.6 million and \$0.7 million, respectively.

Research and Development

Research and development costs related primarily to software product development costs and is expensed as incurred until technological feasibility has been established. Employee related costs associated with product development are included in research and development.

Recently Issued Accounting Pronouncements

Adopted in the Current Year

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 intends to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of this guidance has resulted in a significant portion of our operating leases, where we are the lessee, to be recognized on our Consolidated Balance Sheets. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a full retrospective approach. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with earlier adoption permitted. In July of 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which is intended to reduce costs and ease implementation of the leases standard in the preparation of financial statements. ASU 2018-11 provides an optional transition method that allows entities to elect to apply the standard using the modified retrospective approach at its effective date, versus recasting the prior years presented. The Company elected a date of initial application of January 1, 2019. In doing so, the Company (i) applied ASC 840 in the comparative periods and (ii) provided the disclosures required by ASC 840 for all periods that continue to be presented in accordance with ASC 840. The adoption of the standard had no effect on retained earnings as of January 1, 2019. The Company elected the practical expedient to use hindsight when determining lease term and a package of practical expedients to not reassess whether a contract is or contains a lease, lease classification, and initial direct costs. Adoption of the new standard resulted in the recording of right-of-use assets and lease liabilities as of January 1, 2019 as described in Note 15. The standard did not materially impact our consolidated net earnings and had no impact on cash flows.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

On December 18, 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, as part of the Board's overall initiative to reduce complexity in accounting standards. Amendments include the removal of certain exceptions to the general principles of ASC 740, Income taxes. While not required to be adopted until 2021 for most calendar year public business entities (and 2022 for other entities), we elected to early adopt the new guidance as permitted for any financial statements not yet issued to take advantage of the simplifications. The adoption had no material impact on our financial statements.

To be Adopted in Future Periods

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which provides updated guidance on how an entity should measure credit losses on financial instruments. The new guidance replaces the current incurred loss measurement methodology with a lifetime expected loss measurement methodology. Subsequently, in November 2018 the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which clarified that receivables arising from operating leases are not within the scope of Subtopic 326-20, but should rather be accounted for in accordance with ASC 842. In May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief* providing targeted transition relief to all reporting entities within the scope of Topic 326. The new standard and related amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. This guidance is expected to be applied using a modified retrospective approach for the cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective and using a prospective approach for debt securities for which any other-than-temporary impairment had been recognized before the effective date. We are currently evaluating the impact of adopting this guidance on our financial statements; however, we do not expect the impact to be material.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)* which aligns the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. We are currently evaluating the impact of adopting this guidance on our financial statements; however, we do not expect the impact to be material.

We do not expect that any other recently issued accounting guidance will have a significant effect on our financial statements.

NOTE 2. ACQUISITIONS

In Bet Gaming II

During the quarter ended September 30, 2019, the Company acquired certain intangible assets related to table game intellectual property from In Bet Gaming, Inc ("In Bet II"). The acquisition was accounted for as an acquisition of a business and the assets acquired were measured based on our estimates of their fair values at the acquisition date. We attribute the goodwill recognized to our ability to commercialize the products over our distribution and sales network, opportunities for synergies, and other strategic benefits. The consideration of \$4.0 million was allocated primarily to tax deductible goodwill for \$1.2 million and intangible assets of \$2.8 million, which will be amortized over a weighted average period of approximately 9.3 years.

Integrity

On February 8, 2019, we acquired all of the equity of Integrity Gaming Corp. ("Integrity"), a regional slot route operator with over 2,500 gaming machines in operation across over 33 casinos in Oklahoma and Texas. We attribute the goodwill recognized to our ability to utilize Integrity's installed base to maximize revenue of the combined product portfolio and the synergies we can obtain through the reduction in our combined service and overhead costs.

The total purchase price consideration for Integrity was as follows:

	February 8, 2019
	(in 000s)
Total purchase price for Integrity common stock (35,223,928 shares at CAD \$0.46 per share)	\$ 12,335
Payments to holders of Integrity stock options and restricted share units	441
Repayments of Integrity debt and other obligations	39,806
Total purchase price consideration	<u>\$ 52,582</u>

The acquisition was accounted for as an acquisition of a business and the assets acquired and liabilities assumed were measured based on our estimates of their fair values at the acquisition date.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The acquisition of Integrity was accounted for using the acquisition method of accounting, which requires, among other things, the assets acquired and liabilities assumed be recognized at their respective fair values as of the acquisition date. The property, plant and equipment which fair value was determined based on the cost and market approach (level 2 fair value measurement), consist primarily of electronic gaming machines ("EGM") assets. The intangible assets consist of customer relationships which will be amortized over a weighted average period of approximately 10 years. The intangible assets were valued using the excess earnings method (level 3 fair value measurement), which is a risk-adjusted discounted cash flow approach that determines the value of an intangible asset as the present value of the cash flows attributable to such asset after excluding the proportion of the cash flows that are attributable to other assets. The contribution to the cash flows that are made by other assets - such as net working capital, assembled workforce and property, plant and equipment - was estimated through contributory asset capital charges. The value of the customer relationships is the present value of the attributed post-tax cash flows, net of the post-tax return on fair value attributed to the other assets.

The allocation of the purchase price to the fair values of the assets acquired and the liabilities assumed was as follows (in thousands):

	February 8, 2019
	(in 000s)
Assets	
Current assets	
Cash and cash equivalents	\$ 1,646
Accounts receivable	1,584
Inventories	159
Deposits and other	26
Prepaid expenses	141
Total Current Assets	3,556
Property and Equipment	12,708
Intangible Assets	30,600
Goodwill	11,380
Total Assets	\$ 58,244
Liabilities and Equity	
Current liabilities	
Accounts payable	\$ 1,366
Accrued liabilities	2,087
Current portion of long-term debt	151
Total current liabilities	3,604
Other long-term liabilities	1,787
Long-term debt	200
Total liabilities	1,987
Minority Interest	71
Net assets acquired	\$ 52,582

We recognized \$0.6 million related to property tax liability and \$1.4 million related to uncertain tax positions arising from contingencies which were valued at their fair value utilizing level 3 inputs.

The following unaudited pro forma statements of operations give effect to the Integrity acquisition as if it had been completed on January 1, 2018. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of what the operating results actually would have been during the periods presented had the acquisition been completed on January 1, 2018. We did not summarize the amounts of revenue and earnings of Integrity since the acquisition date included in the consolidated income statement as it was immediately combined with our existing business and separating the results of operations would be impracticable. In addition, the unaudited pro forma financial information does not purport to project future operating results. This information is preliminary in nature and subject to change based on final purchase price adjustments. The pro forma statements of operations do not reflect: (1) any anticipated synergies (or costs to achieve synergies) or (2) the impact of non-recurring items directly related to the Integrity acquisition.

	Year Ended December 31, 2019	Year Ended December 31, 2018
Total revenues	\$ 306,452	\$ 303,293
Net loss attributable to PlayAGS, Inc.	\$ (11,813)	\$ (20,381)

AGS iGaming

During the quarter ended June 30, 2018, the Company acquired all of the equity of Gameiom Technologies Limited (formerly known as "Gameiom", currently known as "AGS iGaming"). AGS iGaming was a licensed gaming aggregator and content provider for real-money gaming ("RMG") and sports betting partners. The acquisition was accounted for as an acquisition of a business and the assets acquired and liabilities assumed were measured based on our estimates of their fair values at the acquisition date.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We attributed the goodwill recognized to our ability to utilize AGS iGaming's existing RMG platform to distribute our existing EGM game content into many markets, diversification of our Interactive segment's product portfolio that now includes a real-money gaming solution and other strategic benefits. The total consideration for this acquisition was \$5.0 million, which included cash paid of \$4.5 million and \$0.5 million of deferred consideration that was paid 18 months after the acquisition date. The consideration was allocated to goodwill that is not tax deductible for \$3.7 million and intangible assets of \$2.1 million, which will be amortized over a weighted average period of approximately 6.7 years. See Note 4 for a discussion and summary of impairments that we recorded subsequent to the acquisition related to these intangible assets and the related goodwill.

The intangible assets consisted primarily of customer relationships and a technology platform. The customer relationships were valued using the cost approaches (level 3 fair value measurement), in which we determined an estimated reproduction or replacement cost, as applicable. The technology platform was valued using the royalty savings method (level 3 fair value measurement), which is a risk-adjusted discounted cash flow approach. The royalty savings method values an intangible asset by estimating the royalties saved through ownership of the asset. The royalty savings method requires identifying the future revenue that would be impacted by the technology platform (or royalty-free rights to the assets), multiplying it by a royalty rate deemed to be avoided through ownership of the asset and discounting the projected royalty savings amounts back to the acquisition date. The royalty rate used in such valuation was based on a consideration of market rates for similar categories of assets.

It is not practicable to provide pro forma statements of operations giving effect to the AGS iGaming acquisition as if it had been completed at an earlier date. This is due to the lack of historical financial information sufficient to produce such pro forma statements given the start up nature of AGS iGaming.

Rocket Gaming Systems

On December 6, 2017, the Company acquired an installed base of approximately 1,500 Class II EGMs across the United States that were operated by Rocket Gaming Systems ("Rocket") for total consideration of \$56.9 million that was paid at the acquisition date. This asset acquisition was accounted for as an acquisition of a business. The acquisition expanded the Company's Class II footprint in primary markets such as California, Oklahoma, Montana, Washington and Texas and is expected to provide incremental revenue as the Company upgrades the EGMs with its game content and platforms over the next several years. In addition, the acquisition expanded the Company's product library and included a wide-area progressive and standalone video and spinning-reel games and platforms, including *Gold Series*®, a suite of games that feature a \$1 million+ progressive prize that is the longest-standing million dollar wide-area progressive on tribal casino floors.

We have recorded the Rocket assets acquired and liabilities assumed based on our estimates of their fair values at the acquisition date. The determination of the fair values of the assets acquired and liabilities assumed (and the related determination of estimated lives of depreciable and amortizable tangible and identifiable intangible assets) requires significant judgment and estimates. The estimates and assumptions used include the projected timing and amount of future cash flows and discount rates that reflect risk inherent in the future cash flows.

The allocation of the purchase price to the fair values of the assets acquired and the liabilities assumed was as follows (in thousands):

Inventories	\$	354
Property and equipment		3,307
Goodwill		23,217
Intangible assets		30,290
Total Assets	\$	57,168
Other long-term liabilities		318
Total purchase price	\$	56,850

The total consideration exceeded the aggregate fair value of the acquired assets and assumed liabilities at the acquisition date and has been recorded as goodwill. We attribute this goodwill to our opportunities for synergies through our ability to leverage our existing service network to service the acquired assets, the opportunity to derive incremental revenue through upgrading the EGMs with the Company's existing game content and platforms and other strategic benefits. The goodwill associated with the acquisition is deductible for income tax purposes.

The fair values of identifiable intangible assets include \$22.5 million customer relationships, \$6.9 million gaming software and technology platforms, and \$0.9 million trade names. The intangible assets have a weighted average useful life of 6.4 years.

The fair value of property and equipment assets as well as the fair value of gaming content software was primarily determined using cost approaches in which we determined an estimated reproduction or replacement cost, as applicable.

The fair value of customer relationships was determined using the excess earnings method, which is a risk-adjusted discounted cash flow approach that determines the value of an intangible asset as the present value of the cash flows attributable to such asset after excluding the proportion of the cash flows that are attributable to other assets. The contribution to the cash flows that are made by other assets - such as fixed assets, working capital, workforce and other intangible assets - was through contributory asset capital charges. The value of the acquired customer relationship asset is the present value of the attributed post-tax cash flows, net of the post-tax return on fair value attributed to the other assets.

The fair values of acquired trade names and gaming technology platforms were primarily determined using the royalty savings method, which is a risk-adjusted discounted cash flow approach. The royalty savings method values an intangible asset by estimating the royalties saved through ownership of the asset. The royalty savings method requires identifying the future revenue that would be impacted by the trade name or intellectual property (or royalty-free rights to the assets), multiplying it by a royalty rate deemed to be avoided through ownership of the asset and discounting the projected royalty savings amounts back to the acquisition date. The royalty rate used in such valuation was based on a consideration of market rates for similar categories of assets.



PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The revenue and net loss of Rocket from the acquisition date through December 31, 2017, are presented below and are included in our consolidated statements of operations and comprehensive loss. These amounts are not necessarily indicative of the results of operations that Rocket would have realized if it had continued to operate as a stand-alone company during the period presented, primarily due to the inclusion of amortization on purchased intangible assets and short term transition services expenses that the Company incurred in December 2017.

	From December 6, 2017 through December 31, 2017
	(in 000s)
Revenue	\$ 1,139
Net income	\$ 203

It is not practicable to provide pro forma statements of operations giving effect to the Rocket acquisition as if it had been completed at an earlier date. This is due to the lack of historical financial information sufficient to produce such pro forma statements given that the Company purchased specific assets from the sellers that were not segregated in the seller's financial records and for which separate carve-out financial statements were not produced.

In Bet Gaming

During the quarter ended September 30, 2017, the Company acquired certain intangible assets related to table games and table game intellectual property from In Bet Gaming, Inc. The acquisition was accounted for as an acquisition of a business and the assets acquired and liabilities assumed were measured based on our final estimates of their fair values at the acquisition date. We attribute the goodwill acquired to our ability to commercialize the products over our distribution and sales network, opportunities for synergies, and other strategic benefits. The total consideration for this acquisition was \$9.6 million, which included \$2.6 million of contingent consideration that is payable upon the achievement of certain targets and periodically based on a percentage of product revenue earned on the purchased table games.

The consideration was allocated primarily to tax deductible goodwill for \$3.2 million and intangible assets of \$5.5 million, which will be amortized over a weighted average period of approximately 9 years.

The contingent consideration was valued using scenario-based methods (the Company used level 3 of observable inputs in this valuation) that account for the expected timing of payments to be made and discounted using an estimated borrowing rate. The borrowing rate utilized for this purpose was developed with reference to the Company's existing borrowing rates, adjusted for the facts and circumstances related to the contingent consideration.

The intangible assets consist of a primary asset that includes the intellectual property acquired, which asset represents the majority of the intangible asset value. This intellectual property was valued using the excess earnings method (the Company used level 3 of observable inputs in this valuation), which is a risk-adjusted discounted cash flow approach that determines the value of an intangible asset as the present value of the cash flows attributable to such asset after excluding the proportion of the cash flows that are attributable to other assets. The contribution to the cash flows that are made by other assets - such as working capital, workforce and other intangible assets - was estimated through contributory asset capital charges. The value of the acquired intellectual property is the present value of the attributed post-tax cash flows, net of the post-tax return on fair value attributed to the other assets.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment, net consist of the following (in thousands):

	December 31, 2019	December 31, 2018
Gaming equipment	\$ 175,837	\$ 141,530
Other property and equipment	23,210	23,304
Less: Accumulated depreciation	(95,449)	(73,287)
Total property and equipment, net	\$ 103,598	\$ 91,547

Gaming equipment and other property and equipment are depreciated over the respective useful lives of the assets ranging from two to six years. Depreciation expense was \$45.1 million, \$32.4 million and \$27.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4. GOODWILL AND INTANGIBLES

Changes in the carrying amount of goodwill are as follows (in thousands):

	Gross Carrying Amount			
	EGM	Table Products	Interactive ⁽¹⁾	Total
Balance at December 31, 2017	\$ 266,868	\$ 6,641	\$ 4,828	\$ 278,337
Foreign currency adjustments	11	—	(182)	(171)
Purchase accounting adjustment	200	—	—	200
Acquisition	—	—	3,725	3,725
Impairment	—	—	(4,828)	(4,828)
Balance at December 31, 2018	\$ 267,079	\$ 6,641	\$ 3,543	\$ 277,263
Foreign currency adjustments	769	—	(10)	759
Acquisition	11,380	1,180	—	12,560
Impairment	—	—	(3,533)	(3,533)
Balance at December 31, 2019	<u>\$ 279,228</u>	<u>\$ 7,821</u>	<u>\$ -</u>	<u>\$ 287,049</u>

(1) Accumulated goodwill impairment charges for the Interactive segment as of December 31, 2019 were \$8.4 million.

The Company performed a quantitative assessment, or "Step 1" analysis, as of October 1, 2019 on the EGM and Table Products reporting units. Both reporting units had a significant amount of cushion between the fair value and carrying value. We estimated the fair value of both reporting units using the discounted cashflow method. The most significant factor in the assessment was the projected cashflows. Other factors affecting the assessment were the discount rates of 10% for EGM and 14% for Table Products and the long-term growth rate of 3% for both reporting units. In addition to the discounted cashflow method, we used the market approach that considered both comparable public companies and comparable industry transactions in which we used industry trading and transaction revenue and EBITDA multiples.

During the second quarter of 2019, our RMG interactive reporting unit fell short of its expected operating results, driven by the delays launching new operators and extended regulatory timelines in new jurisdictions, which was considered to be a triggering event. Accordingly, we reduced the projections of the future operating results for this reporting unit, originally established when we acquired AGS iGaming in 2018.

As a result of this triggering event, we performed a quantitative impairment analysis of the associated goodwill and determined that the entire balance of \$3.5 million was impaired. In performing the quantitative goodwill impairment test for our RMG interactive reporting unit, we estimated the fair value of the reporting unit using an income approach that analyzed projected discounted cash flows. We used projections of revenues and operating costs with estimated growth rates during the forecast period, capital expenditures and cash flows that considered historical and estimated future results and general economic and market conditions, as well as the estimated impact of planned business and operational strategies. The estimates and assumptions used in the discounted cash flow analysis included a terminal year long-term growth rate of 3.0% and an overall discount rate of 25% based on our weighted average cost of capital for the Company and premiums for the small size of the reporting unit and forecast risk.

In 2018, the Interactive Social reporting unit had a goodwill carrying value of \$4.8 million. The Company performed a quantitative, or "Step 1" analysis in 2018, in which we determined the entire balance of goodwill was impaired. In performing the Step 1 goodwill impairment test for our Interactive Social reporting unit, we estimated the fair value of the Interactive Social reporting unit using an income approach that analyzed projected discounted cash flows. We used projections of revenues and operating costs with estimated growth rates during the forecast period, capital expenditures and cash flows that considered historical and estimated future results and general economic and market conditions, as well as the estimated impact of planned business and operational strategies. In the fourth quarter of the year ended December 31, 2018, during the annual budgeting process the Company decided to change its strategy with regard to marketing and user acquisition activities that drive its B2C Social offerings. The strategic decision to significantly cut spending in this area and to focus completely on the B2B Social business, was the primary reason for a reduction in the projected discounted cash flows that were used in the impairment test. The estimates and assumptions used in the discounted cash flow analysis included a terminal year long-term growth rate of 3.0% and an overall discount rate of 19% based on our weighted average cost of capital for the Company and premiums for the small size of the reporting unit and forecast risk.

Intangible assets consist of the following (in thousands):

	Useful Life (years)	December 31, 2019			December 31, 2018		
		Gross Value	Accumulated Amortization	Net Carrying Value	Gross Value	Accumulated Amortization	Net Carrying Value
Indefinite-lived trade names	Indefinite	\$ 12,126	\$ —	\$ 12,126	\$ 12,126	\$ —	\$ 12,126
Trade and brand names	5 - 7	14,870	(13,209)	1,661	14,730	(10,681)	4,049
Customer relationships	5 - 12	219,788	(120,384)	99,404	188,772	(93,358)	95,414
Contract rights under development and placement fees	1 - 7	48,180	(8,888)	39,292	19,620	(14,367)	5,253
Gaming software and technology platforms	1 - 7	162,391	(96,193)	66,198	151,055	(82,371)	68,684
Intellectual property	10 - 12	19,345	(7,575)	11,770	17,205	(5,830)	11,375
		<u>\$ 476,700</u>	<u>\$ (246,249)</u>	<u>230,451</u>	<u>\$ 403,508</u>	<u>\$ (206,607)</u>	<u>\$ 196,898</u>

Intangible assets are amortized over their respective estimated useful lives ranging from one to twelve years. Amortization expense related to

intangible assets was \$46.4 million, \$45.1 million and \$44.4 million for the years ended December 31, 2019, 2018 and 2017, respectively.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Management reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We recorded impairments related to internally developed gaming titles of \$0.5 million for the year ended December 31, 2019. For the year ended December 31, 2018, the Company recognized impairment charges related to internally developed gaming titles and assets associated with terminated development agreements of \$1.3 million.

In 2019, and prior to the goodwill impairment assessment noted above, we completed a qualitative review of long-lived assets for all asset groups to determine if events or changes in circumstances indicated that the carrying amount of each asset group may not be recoverable (i.e. if a “triggering event” existed). Based on this review, we tested the recoverability of the long-lived assets, other than goodwill and indefinite-lived intangible assets, in certain asset groups related to the RMG Interactive reporting unit where a triggering event existed at the lowest level at which identifiable cash flows existed, the reporting unit level. The recoverability test failed, meaning that the undiscounted cash flows were less than the carrying value of the related asset group and we therefore measured the amount of any impairment loss as the amount by which the carrying amount of the asset group exceeded its fair value using the projected reporting unit cash flows, a 25% discount rate, and 3% long-term growth rate. We then allocated the indicated impairment loss to the long-lived assets of the group on a pro rata basis, except for certain assets whose carrying value was reduced only to their individually determined fair value. Specifically, from the pro rata allocation, we recorded a full impairment of RMG customer relationships, gaming licenses, and game content, which had a carrying value of \$0.6 million. We also reduced the value of the RMG technology platform by \$0.7 million to its fair value of \$0.4 million. The technology platform was valued using the royalty savings method (level 3 fair value measurement), which is a risk-adjusted discounted cash flow approach. The royalty savings method values an intangible asset by estimating the royalties saved through ownership of the asset. The royalty savings method requires identifying the future revenue that would be impacted by the technology platform (or royalty-free rights to the assets), multiplying it by a royalty rate deemed to be avoided through ownership of the asset and discounting the projected royalty savings amounts back to the acquisition date. We used a discount rate of 25%. The royalty rate used in such valuation was 5% and was based on a consideration of market rates for similar categories of assets.

The Company enters into development agreements and placement fee agreements with certain customers to secure floor space under lease agreements for its gaming machines. Amounts paid in connection with the development agreements are repaid to the Company in accordance with the terms of the agreement, whereas placements fees are not reimbursed. For development agreements in the form of a loan, interest income is recognized on the repayment of the notes based on the stated rate or, if not stated explicitly in the development agreement, on an imputed interest rate. If the stated interest rate is deemed to be other than a market rate or zero, a discount is recorded on the note receivable as a result of the difference between the stated and market rate and a corresponding intangible asset is recorded. The intangible asset is recognized in the financial statements as a contract right under development agreement and amortized as a reduction in revenue over the term of the agreement. Placement fees can be in the form of cash paid upfront or free lease periods and are accreted over the life of the contract and the expense is recorded as a reduction of revenue. We recorded a reduction of gaming operations revenue from the accretion of contract rights under development agreements and placement fees of \$6.4 million, \$4.6 million and \$4.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

In March 2019, we entered into a placement fee agreement with a customer for certain of its locations and capitalized approximately \$33.1 million additional placement fees, in addition to \$2.1 million of unamortized fees related to superseded contracts. The liability was recorded at present value and cash payments totaling \$40.1 million will be paid over a term of 83 months.

The estimated amortization expense of definite-lived intangible assets as well as the accretion of contract rights under development and placement fees, for each of the next five years and thereafter is as follows (in thousands):

For the year ended December 31,	Amortization Expense	Placement Fee Accretion
2020	\$ 41,191	\$ 8,451
2021	29,625	6,596
2022	26,769	6,277
2023	23,277	5,913
2024	21,972	5,389
Thereafter	36,199	6,666
Total	\$ 179,033	\$ 39,292

NOTE 5. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2019	2018
Salary and payroll tax accrual	\$ 8,691	\$ 13,393
Taxes payable	4,151	3,437
Current portion of operating lease liability	2,175	—
License fee obligation	1,000	1,000
Placement fees payable	8,346	2,490
Accrued other	10,477	6,339
Total accrued liabilities	\$ 34,840	\$ 26,659

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	December 31,	
	2019	2018
First Lien Credit Facilities:		
Term loans, interest at LIBOR or base rate plus 3.5% (5.2% at December 31, 2019), net of unamortized discount and deferred loan costs of \$9.0 million and \$10.9 million at December 31, 2019 and 2018, respectively.	\$ 522,989	\$ 526,461
Equipment long-term note payable and finance leases	1,737	1,422
Total debt	524,727	527,883
Less: Current portion	(6,038)	(5,959)
Long-term debt	<u>\$ 518,689</u>	<u>\$ 521,924</u>

First Lien Credit Facilities

On June 6, 2017 (the "Closing Date"), AP Gaming I, LLC (the "Borrower"), a wholly owned indirect subsidiary of the Company, entered into a first lien credit agreement ("the First Lien Credit Agreement"), providing for \$450.0 million in term loans and a \$30.0 million revolving credit facility (the "First Lien Credit Facilities"). The proceeds of the term loans were used primarily to repay the Company's then existing term loans, other indebtedness, to pay for the fees and expenses incurred in connection with the foregoing and otherwise for general corporate purposes.

On December 6, 2017, the Borrower entered into incremental facilities for \$65.0 million in term loans (the "December Incremental Term Loans"). The net proceeds of the December Incremental Term Loans were used to finance the acquisition of electronic gaming machines and related assets operated by Rocket Gaming Systems ("Rocket") and to pay fees and expenses in connection therewith and for general corporate purposes.

An additional \$1.0 million in loan costs were incurred related to the issuance of the December Incremental Term Loans. Given the composition of the lender group, the transaction was accounted for as a debt modification and, as such, \$0.9 million in third-party costs were expensed and included in the loss on extinguishment and modification of debt. The remaining amount was capitalized and will be amortized over the term of the agreement.

On February 8, 2018, the Borrower completed the repricing of its existing \$513 million term loans under its First Lien Credit Agreement (the "Term Loans"). The Term Loans were repriced from 550 basis points to 425 basis points over LIBOR. The LIBOR floor remained at 100 basis points.

On February 8, 2018, in connection with the repricing of the Term Loans, third-party costs of \$1.2 million were expensed and included in the loss and modification of debt. Existing debt issuance costs of \$0.4 million were written-off and also included in the loss on extinguishment and modification of debt.

On October 5, 2018, the Borrower entered into an Incremental Assumption and Amendment Agreement No. 2 (the "Incremental Agreement No. 2") with certain of the Borrower's subsidiaries, the lenders party thereto from time to time and the Administrative Agent. The Incremental Agreement No. 2 amended and restated that certain First Lien Credit Agreement, dated as of June 6, 2017, as amended on December 6, 2017 and as amended and restated on February 8, 2018 (the "Existing Credit Agreement"), among the Borrower, the lenders party thereto, the Administrative Agent and other parties named therein (the "Amended and Restated Credit Agreement"), to (a) reduce the applicable interest rate margin for the Term B Loans (as repriced, the "Repriced Term B Loans") under the Credit Agreement by 0.75% (which shall increase by an additional 0.25% if at any time the Borrower receives a corporate credit rating of at least B1 from Moody's, regardless of any future rating) and (b) provide for the incurrence by the Borrower of incremental term loans in an aggregate principal amount of \$30 million (the "Incremental Term Loans" and together with the Repriced Term B Loans, the "Term B Loans").

On October 5, 2018, in connection with the repricing of the Term Loans, third-party costs of \$1.5 million were expensed and included in the loss on extinguishment and modification of debt.

On August 30, 2019, the Borrower entered into Amendment No. 3 (the "Repricing Amendment") to the credit agreement. The Repricing Amendment reduced the interest rate margin on the revolving credit facility to the same interest rate margin as the term loans issued under the Amended and Restated Credit Agreement.

As of December 31, 2019, we were in compliance with the required covenants of our debt instruments.

Equipment Long Term Note Payable and Finance Leases

The Company has entered into a financing agreement to purchase certain gaming devices, systems and related equipment and has entered into leases for vehicles that are accounted for as finance leases, as described in Item 15. "Exhibits and Financial Statement Schedules" Note 6 .

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Scheduled Maturities of Long-Term Debt

Aggregate contractual future principal payments (excluding the effects of repayments for excess cash flow) of long-term debt for the years following December 31, 2019, are as follows (in thousands):

For the year ending December 31,	
2020	\$ 6,038
2021	6,005
2022	5,768
2023	5,470
2024	510,446
Thereafter	—
Total scheduled maturities	533,727
Unamortized debt discount and debt issuance costs	(9,000)
Total debt	<u>\$ 524,727</u>

NOTE 7. STOCKHOLDERS' EQUITY

Common Stock

Prior to the completion of the IPO, the Company's common stock consisted of two classes: class A voting common stock ("Class A Shares") and class B non-voting common stock ("Class B Shares"). In connection with the IPO, we (i) reclassified Class B Shares into a new class of voting common stock, which is the class of stock investors received in the IPO, and (ii) canceled the Class A Shares. Concurrent with this reclassification, and immediately prior to the consummation of the IPO, we effected a 1.5543-for-1 stock split of the Company's new voting common stock such that existing stockholders each received 1.5543 shares of the new voting common stock described above in clause (i) for each share of Class B Shares they held at that time. Accordingly, all share and per share amounts for all periods presented in these financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect the stock split.

On January 30, 2018, the Company completed the IPO, in which it issued and sold 10,250,000 shares of common stock at a public offering price of \$16.00 per share. On February 27, 2018, the Company sold an additional 1,537,500 shares of its common stock, pursuant to the underwriters' exercise in full of the over-allotment option. The aggregate net proceeds received by the Company from the IPO were \$171.5 million, after deducting underwriting discounts and commissions and offering expenses directly related to issuance of the equity.

Prior to the consummation of the IPO, 170,712 shares of common stock were held by management. Pursuant to the Securityholders Agreement dated April 28, 2014 (the "Securityholders Agreement"), these shares were outstanding, but were not considered issued for accounting purposes as they contained a substantive performance condition, a "Qualified Public Offering", as defined in the Securityholders Agreement, which had to be probable for the holders of these shares to benefit from their ownership. The IPO satisfied the substantive performance condition and as a result the shares and related proceeds of \$1.3 million were reclassified from other long-term liabilities to additional paid-in capital and considered issued for accounting purposes.

As further clarification of the foregoing, prior to the IPO, shares were held by management that were subject to repurchase rights as outlined in Section 6 of the Securityholders Agreement, that were contingent on the holder's termination. The repurchase rights enabled the Company to recover the shares issued to management without transferring any appreciation of the fair value of the stock to the holder upon certain terminations of the holder's employment prior to a "Qualified Public Offering", as defined in the Securityholders Agreement. If a holder's employment was terminated by the Company prior to the consummation of a Qualified Public Offering for "Cause", as defined in the Securityholders Agreement, or was terminated by such holder without "Good Reason", as defined in the Securityholders Agreement, then the Company had the right to repurchase all or any portion of the shares held by the holder for the lesser of original cost or fair market value. If a holder's employment was terminated by the Company prior to the consummation of a Qualified Public Offering other than as described above and in the Securityholders Agreement, then the Company had the right to repurchase all or any portion of the shares held by the holder for fair market value.

During 2019, the board of directors approved a share repurchase program that will permit the Company to repurchase up to \$50.0 million of the Company's shares of common stock through August 11, 2021.

NOTE 8. WRITE-DOWNS AND OTHER CHARGES

The Consolidated Statements of Operations and Comprehensive Loss include various transactions, such as loss on disposal or impairment of long-lived assets and fair value adjustments to contingent consideration that have been classified as write-downs and other charges. During the year ended December 31, 2019, the Company recognized \$6.9 million in write-downs and other charges. The activity was primarily driven by losses from the impairment to goodwill in the RMG Interactive reporting unit of \$3.5 million and impairments of intangible assets in the RMG Interactive reporting unit of \$1.3 million, which are described in Note 4. We also recorded losses from the disposal of assets of \$1.1 million, impairment of intangible assets related to game titles of \$0.5 million (the Company used level 3 of observable inputs in conducting the impairment tests), and a fair value adjustment to contingent consideration of \$0.5 million (the Company used level 3 fair value measurements based on projected cash flows).

During the year ended December 31, 2018, the Company recognized \$8.8 million in write-downs and other charges driven by losses from the disposal of assets of \$2.0 million, the impairment of goodwill related to Interactive Social reporting unit of \$4.8 million (the Company used level 3 fair value measurements based on projected cash flows), the full impairment of intangible assets related to game titles and assets associated with

terminated development agreements of \$1.3 million (the Company used level 3 of observable inputs in conducting the impairment tests), and a fair value adjustment to contingent consideration of \$0.7 million (the Company used level 3 fair value measurements based on projected cash flows).

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the year ended December 31, 2017, the Company recognized \$4.5 million in write-downs and other charges driven by losses from the disposal of assets of \$3.2 million, write-offs related to prepaid royalties of \$0.7 million, the full impairment of certain intangible assets of \$0.6 million (level 3 fair value measurement based on projected cash flows for the specific same titles), losses from the disposal of intangible assets of \$0.5 million, offset by a fair value adjustment to an acquisition contingent receivable of \$0.5 million (level 3 fair value measurements based on projected cash flows). The contingency was resolved in the quarter ending March 31, 2017.

Due to the changing nature of our write-downs and other charges, we describe the composition of the balances as opposed to providing a year over year comparison.

NOTE 9. BASIC AND DILUTED LOSS PER SHARE

The Company computes net (loss) income per share in accordance with accounting guidance that requires presentation of both basic and diluted earnings per share ("EPS") on the face of the Consolidated Statement of Operations and Comprehensive (Loss) Income. Basic EPS is computed by dividing net (loss) income for the period by the weighted average number of shares outstanding during the period. Basic EPS includes common stock weighted for average number of shares issued during the period. Diluted EPS is computed by dividing net (loss) income for the period by the weighted average number of common shares outstanding during the period, increased by potentially dilutive common shares that were outstanding during the period. Diluted EPS excludes all potential dilutive shares if their effect is anti-dilutive. Potentially dilutive common shares include stock options and restricted stock (see Note 11).

There were no potentially dilutive securities for the years ended December 31, 2019, 2018 and 2017.

Excluded from the calculation of diluted EPS for the years ended December 31, 2019, 2018 and 2017, were 616,751, 125,249 and 77,715 restricted shares, respectively. Excluded from the calculation of diluted EPS for the years ended December 31, 2019, 2018 and 2017 were 629,866, 849,660 and 405,774 stock options, respectively, as such securities were anti-dilutive.

NOTE 10. BENEFIT PLANS

The Company has established a 401(k) defined contribution plan (the "401(k) Plan") for its employees. The 401(k) Plan allows employees to contribute a portion of their earnings, and the Company may match a percentage of the contributions on a discretionary basis. The expense associated with the 401(k) Plan for the years ended December 31, 2019, 2018 and 2017 was \$1.4 million, \$1.2 million and \$1.0 million, respectively. The increase in the expense associated with the 401(k) Plan in each year is primarily attributable to increased headcount and participation.

On April 28, 2014, the board of directors of the Company approved the 2014 Long-Term Incentive Plan ("LTIP"). Under the LTIP, the Company is authorized to grant nonqualified stock options, rights to purchase shares of common stock, restricted stock, restricted stock units and other awards to be settled in, or based upon, shares of common stock to persons who are directors and employees of and consultants to the Company or any of its subsidiaries on the date of the grant. The LTIP will terminate ten years after approval by the board. Subject to adjustments in connection with certain changes in capitalization, the maximum number of shares of common stock that may be delivered pursuant to awards under the LTIP is 2,253,735 after giving effect to the 1.5543 - for - 1 stock split consummated on January 30, 2018 in connection with our initial public offering. As of December 31, 2019, 423,268 shares remain available for issuance.

On January 16, 2018, our board adopted and our stockholders approved the 2018 Omnibus Incentive Plan (the "Omnibus Incentive Plan") pursuant to which equity-based and cash incentives may be granted to participating employees, directors and consultants. The Omnibus Incentive Plan provides for an aggregate of 1,607,389 shares of our common stock. As of December 31, 2019, 518,771 shares remain available for issuance.

NOTE 11. STOCK-BASED COMPENSATION

All share information is presented after giving effect to the 1.5543 - for - 1 stock split consummated on January 30, 2018 in connection with our initial public offering.

Stock Options

The Company has granted stock awards to eligible participants under its incentive plans. The stock awards include options to purchase the Company's common stock. These stock options include a combination of service and market conditions, as further described below. Prior to the Company's IPO, these stock options included a performance vesting condition, a Qualified Public Offering (see Note 7), which was not considered to be probable prior to the consummation of the IPO, and as a result, no share-based compensation expense for stock options was recognized prior to 2018.

For the year ended December 31, 2019, the Company recognized \$0.9 million in stock-based compensation for stock options and \$8.1 million for restricted stock awards. We recognize stock-based compensation on a straight-line basis over the vesting period for time based awards and we recognize the expense immediately for awards with market conditions over the service period derived from the related valuation. The amount of unrecognized compensation expense associated with stock options was \$0.8 million and for restricted stock was \$11.9 million at December 31, 2019 which is expected to be recognized over a 1.9 and 2.8 yearly weighted average period, respectively.

For the year ended December 31, 2018, the Company recognized \$8.5 million in stock-based compensation for stock options and \$2.4 million for restricted stock awards, the majority of which was recognized upon the consummation of the IPO.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company calculated the grant date fair value of stock options that vest over a service period using the Black Scholes model. For stock options that contain a market condition related to the return on investment that the Company's stockholders achieve, the options were valued using a lattice-based option valuation model. The assumptions used in these calculations are noted in the following table. Expected volatilities are based on implied volatilities from comparable companies. The expected time to liquidity is based on management's estimate. The risk-free rate is based on the U.S. Treasury yield curve for a term equivalent to the estimated time to liquidity. There were no options granted in 2019.

	Year Ended December 31,		
	2019	2018	2017
Option valuation assumptions:			
Expected dividend yield	N/A	—%	—%
Expected volatility	N/A	50%	66%
Risk-free interest rate	N/A	2.71%	1.80%
Expected term (in years)	N/A	6.3	6.2

Stock option awards represent options to purchase common stock and are granted pursuant to the Company's incentive plans, and include options that the Company primarily classifies as Tranche A or time based, Tranche B and Tranche C.

Tranche A or time based options are eligible to vest in equal installments of 25% or 20% on each of the first four or five anniversaries of the date of the grant, subject to continued employment with the Company or its subsidiaries. In the event of a termination of employment without cause or as a result of death or disability, any such time based options which would have vested on the next applicable vesting date shall become vested, and the remaining unvested time based options shall be forfeited. In addition, upon a Change in Control (as defined in the incentive plans), subject to continued employment through the date of the Change in Control, all outstanding unvested time based options shall immediately vest. An IPO does not qualify as a Change in Control as it relates to the vesting of stock options.

All other option awards are eligible to vest upon the satisfaction of certain performance conditions (collectively, "Performance Options"). On January 16, 2018, we amended our option agreements to add additional vesting provisions to our Performance Options. Tranche B options are eligible to vest based on (a) achievement of an Investor IRR equal to or in excess of 20%, subject to a minimum cash-on-cash return of 2.5 times the Investor Investment (as such terms are defined in the Company's 2014 Long-Term Incentive Plan) or (b) on the first day that the volume-weighted average price per share of our common stock for the prior 60 consecutive trading days exceeds \$19.11 (provided that such 60-day period shall not commence earlier than the 181st day after the completion of our IPO). Tranche C options are eligible to vest based on (a) achievement of an Investor IRR (as defined in the incentive plans) equal to or in excess of 25% , subject to a minimum cash-on-cash return of 3.0 times the Investor Investment or (b) on the first day that the volume-weighted average price per share of our common stock for the prior 60 consecutive trading days exceeds \$22.93 (provided that such 60-day period shall not commence earlier than the 181st day after the completion of our IPO). In the event of a termination of employment without cause or as a result of death or disability, any Performance Options which are outstanding and unvested will remain eligible to vest subject to achievement of such performance targets (without regard to the continued service requirement) until the first anniversary of the date of such termination. As a result of the modification, the Company measured the incremental fair value of Tranche B and Tranche C options, which resulted in \$2.9 million of incremental fair value.

As of December 31, 2019, the Company had 629,866 Performance Options outstanding, all of which have vested as the vesting provisions were achieved.

A summary of the changes in stock options outstanding during the year ended December 31, 2019, is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding as of December 31, 2018	1,515,461	\$ 9.11	6.57	\$ 22,125
Granted	—	\$ —		
Exercised	(70,288)	\$ 9.74		
Canceled or forfeited	(62,187)	\$ 8.65		
Options outstanding as of December 31, 2019	1,382,986	\$ 9.10	5.45	\$ 4,793
Exercisable as of December 31, 2019	1,192,671	\$ 8.46	5.19	\$ 4,527

The following is provided for stock options granted:

	Year Ended December 31,		
	2019	2018	2017
Weighted average grant date fair value	N/A	\$ 12.63	\$ 5.31

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Restricted Stock

Restricted stock awards are typically eligible to vest in equal installments of 25% on each of the first four anniversaries of the date of the grant, subject to continued employment with the Company or its subsidiaries. In the event of a termination of employment without cause upon or within 12 months following a change in control or as a result of death or disability, any such unvested time based restricted stock awards shall become vested. Certain restricted stock awards are eligible to vest upon the satisfaction of certain conditions (collectively, "Performance Awards"). Vesting occurs on the first day that the average price per share of our common stock for the prior 60 consecutive trading days exceeds \$29.60.

A summary of the changes in restricted stock shares outstanding during the year ended December 31, 2019 is as follows:

	Shares Outstanding	Grant Date Fair Value (per share)
Outstanding as of December 31, 2018	287,479	\$ 29.26
Granted	709,205	\$ 19.37
Vested	(231,543)	\$ 17.19
Canceled or forfeited	(52,645)	\$ 24.78
Outstanding as of December 31, 2019	<u>712,496</u>	<u>\$ 23.66</u>

NOTE 12. INCOME TAXES

The components of loss before provision for income taxes are as follows (in thousands):

	Year ended December 31,		
	2019	2018	2017
Domestic	\$ 1,129	\$ (13,814)	\$ (42,185)
Foreign	(18,099)	(15,409)	(4,810)
Loss before provision for income taxes	<u>\$ (16,970)</u>	<u>\$ (29,223)</u>	<u>\$ (46,995)</u>

The income tax (benefit) expense is as follows (in thousands):

	Year ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ (2,726)	\$ (773)	\$ (250)
State	286	227	47
Foreign	(1,084)	(6,830)	5,365
Total current income tax (benefit) expense	<u>(3,524)</u>	<u>(7,376)</u>	<u>5,162</u>
Deferred:			
Federal	343	379	(5,497)
State	49	48	(372)
Foreign	(2,317)	(1,428)	(1,182)
Total deferred income (benefit) expense	<u>(1,925)</u>	<u>(1,001)</u>	<u>(7,051)</u>
Income tax (benefit) expense	<u>\$ (5,449)</u>	<u>\$ (8,377)</u>	<u>\$ (1,889)</u>

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The reconciliation of income tax at the federal statutory rate to the actual effective income tax rate (benefit) is as follows:

	Year ended December 31,		
	2019	2018	2017
Federal statutory rate	(21.0)%	(21.0)%	(35.0)%
Foreign rate differential	(2.9)%	(3.0)%	1.5%
Losses of foreign subsidiaries disregarded for US income tax	—%	(1.3)%	(2.5)%
State income taxes, net of federal benefit	2.9%	(0.8)%	(3.0)%
Nondeductible loan costs	—%	0.5%	1.4%
Nondeductible transaction costs	0.7%	1.1%	—%
Impact of tax liquidation	—%	10.4%	—%
Tax indemnification charges	7.9%	9.5%	(1.3)%
Stock Compensation	1.0%	(1.4)%	—%
Other differences	4.1%	2.7%	(2.7)%
Withholding tax	3.3%	1.7%	2.5%
Tax credits	(2.4)%	(12.0)%	(2.1)%
Uncertain tax positions	(26.0)%	(38.0)%	7.3%
Valuation allowance	0.3%	22.9%	47.2%
Rate change - impact of the Tax Act	—%	—%	19.9%
Repatriation tax - impact of the Tax Act	—%	(1.0)%	4.1%
Tax credits - impact of the Tax Act	—%	0.6%	(6.0)%
Valuation allowance - impact of the Tax Act	—%	0.4%	(35.3)%
Effective tax rate	(32.1)%	(28.7)%	(4.0)%

The components of the net deferred tax assets (liability) consist of the following (in thousands):

	December 31,	
	2019	2018
Deferred tax assets:		
Accrued expenses	\$ 2,411	\$ 3,042
Stock Compensation	3,129	2,164
Foreign tax credits	12,189	13,571
Net operating loss carryforwards	46,872	43,637
Research and development credits	6,313	4,530
Other	6,391	4,492
Total deferred tax assets	77,305	71,436
Valuation allowance	(41,004)	(40,857)
Deferred tax assets, net of valuation allowance	\$ 36,301	\$ 30,579
Deferred tax liabilities:		
Prepaid expenses and other	\$ (582)	\$ (511)
Intangible assets	(19,719)	(19,552)
Property and equipment, net	(12,871)	(9,415)
Deferred tax liabilities	(33,172)	(29,478)
Net deferred tax assets (liabilities)	\$ 3,129	\$ 1,101

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2019 in certain tax jurisdictions. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, as of December 31, 2019, a valuation allowance of \$41.0 million has been recorded on US and certain foreign deferred tax assets to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

As of December 31, 2019, the Company has \$12.2 million of foreign tax credits which, if unused, will expire in years 2020 through 2029. In addition, the Company has \$6.3 million of research and development credits which begin to expire in 2028. The foreign tax credits and research and development credits carryforwards are not expected to be realizable in future periods and have a related valuation allowance.

The Company has net operating loss ("NOL") carryforwards for U.S. federal purposes of \$200.0 million, in foreign jurisdictions of \$10.8 million and various U.S. states of \$83.5 million. The U.S. federal NOL carryforwards begin to expire in 2031, the foreign NOLs can be carried forward indefinitely, and the U.S. state NOL carryforwards began to expire in 2020. The U.S. federal, state, and foreign NOL carryforwards are not expected to be realizable in future periods and have a related valuation allowance.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Utilization of the net operating loss carryforwards and credits may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended (the "Code"), and similar state provisions. Any annual limitation may result in the expiration of net operating losses and credits before utilization.

The Company has uncertain tax positions with respect to prior tax filings. The uncertain tax positions, if asserted by taxing authorities, would result in utilization of the Company's tax credit and operating loss carryovers. The credit and operating loss carryovers presented as deferred tax assets are reflected net of these unrecognized tax benefits.

The Company had the following activity for unrecognized tax benefits in 2019 and 2018 (amounts in thousands):

	December 31, 2019	December 31, 2018
Balance-beginning of year	\$ 12,580	\$ 28,673
Acquisitions	1,244	—
Increases based on tax positions of the current year	453	393
Decrease due to tax authority settlements	—	(10,457)
Decreases due to lapse of statute	(3,225)	(5,118)
Increases based on tax positions of the prior years	95	156
Decreases based on tax positions of the prior years	(670)	(1,065)
Currency translation adjustments	477	(2)
Balance-end of year	<u>\$ 10,954</u>	<u>\$ 12,580</u>

The Company applies a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company recognizes the impact of a tax position in the financial statements when the position is more likely than not of being sustained on audit based on the technical merits of the position.

The total amount of unrecognized tax benefits as of December 31, 2019 was \$11.0 million. Of this amount, \$6.6 million if recognized, would be included in our Consolidated Statements of Operations and Comprehensive Loss and have an impact on our effective tax rate. The Company anticipates a reduction of its liability for unrecognized tax benefits of up to \$3.0 million before December 31, 2020, primarily related to lapse of statute, all of which would impact our Consolidated Statements of Operations and Comprehensive Loss.

The Company accrues interest and penalties for unrecognized tax benefits in income tax expense. Related to the unrecognized tax benefits noted above, the Company reduced penalties and interest by \$1.5 million during 2019. This reduction, primarily related to lapse of statute and tax authority settlements, was recognized as an income tax benefit in our Consolidated Statements of Operations and Comprehensive Loss. As of December 31, 2019, the Company has a liability of \$5.3 million for penalties and interest related to unrecognized tax benefits.

The Company is subject to taxation and potential examination in the United States and various state and foreign jurisdictions. We are subject to examinations in the United States for the 2017 to 2019 tax years and, generally, we remain subject to examination for all periods in various state jurisdiction due to the Company's NOLs. We are subject to examination in Mexico for the 2014 to 2019 tax years and remain subject to possible examination in various other jurisdictions that are not expected to result in material tax adjustments.

The Company entered into an indemnification agreement with the prior owners of Cadillac Jack whereby the prior owners have agreed to indemnify the Company for changes in tax positions by taxing authorities for periods prior to the acquisition. An indemnification receivable of \$4.2 million and \$9.3 million was recorded as an other asset in the financial statements for the years ended December 2019 and 2018, respectively. This amount includes the indemnification of the original pre-acquisition tax positions along with any related accrued interest and penalties and is also recorded as a liability for unrecognized tax benefits in other long-term liabilities. The Company concluded that it is probable the indemnification receivable is realizable based on an evaluation of the ability of Cadillac Jack's prior owner, including a review of its public filings, that demonstrates its financial resources are sufficient to support the amount recorded. If the related unrecognized tax benefits are subsequently recognized, a corresponding charge to relieve the associated indemnification receivables would be recognized in our Consolidated Statements of Operations and Comprehensive Loss and have an impact on operating income.

On December 22, 2017, President Trump signed the Tax Act into law, which significantly reformed Code, as amended. The new legislation, among other things, changed the U.S. federal tax rates (including permanently reducing the U.S. corporate income tax rate from a maximum of 35.0% to a flat 21.0% rate), allowed the expensing of capital expenditures, and put into effect the migration from a "worldwide" system of taxation to a territorial system. As a result, we recorded a provisional net benefit of \$8.1 million during the fourth quarter of 2017. This amount, which is included in Income tax benefit (expense) in the consolidated financial statements is comprised of a \$9.4 million charge resulting from the re-measurement of the Company's deferred tax assets and liabilities based on the Tax Act's new corporate tax rate of 21.0%, a \$1.9 million charge for the one-time mandatory deemed repatriation of foreign earnings, a \$2.8 million benefit for related foreign tax credits and a \$16.6 million benefit related to the reduction in the existing valuation allowance recorded against certain U.S. federal deferred tax assets. SAB 118 allowed for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. In the fourth quarter of 2018, we completed our accounting for the effect of the Tax Act. As a result, we reduced the one-time mandatory deemed repatriation of foreign earnings charge by \$0.3 million, reduced the benefit for related foreign tax credits by \$0.2 million and adjusted our valuation allowance recorded against certain U.S. federal deferred tax assets by \$0.1 million.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Company is subject to federal, state and Native American laws and regulations that affect both its general commercial relationships with its customers, as well as the products and services provided to them. Periodically, the Company reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, the Company accrues a liability for the estimated loss. If a potential loss from any claim or legal proceeding is considered reasonably possible, the Company discloses an estimate of the possible loss or range of possible loss, or a statement that such an estimate cannot be made. During the third quarter of 2019, the Company recorded a \$1.6 million loss reserve, for which insurance coverage has been triggered. In accordance with GAAP, the offsetting insurance recovery will be recognized when it is realized or realizable in a future period. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to their pending claims and litigation and may revise their estimates. Such revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial condition.

NOTE 14. OPERATING SEGMENTS

We report our business segment results by segment in accordance with the “management approach.” The management approach designates the internal reporting used by our chief operating decision maker (“CODM”), who is our Chief Executive Officer (the “CEO”), for making decisions and assessing performance of our reportable segments.

See Note 1 for a detailed discussion of our three segments. Each segment’s activities include the design, development, acquisition, manufacturing, marketing, distribution, installation and servicing of its product lines. We evaluate the performance of our operating segments based on revenues and segment adjusted EBITDA, which is defined in the paragraph below.

Segment revenues include leasing, licensing, or selling of products within each reportable segment. Segment adjusted EBITDA includes the revenues and operating expenses from each segment adjusted for depreciation, amortization, write-downs and other charges, accretion of placement fees, non-cash stock based compensation expense, as well as other costs such as certain acquisitions and integration related costs including restructuring and severance charges; initial public offering and secondary offerings costs, legal and litigation expenses including settlement payments; new jurisdictions and regulatory licensing costs; non-cash charges on capitalized installation and delivery; contract cancellation fees; and other adjustments primarily composed of professional fees incurred by the Company for projects, corporate and public filing compliance and other costs deemed to be non-recurring in nature. Revenues in each segment are attributable to third parties and segment operating expenses are directly associated with the product lines included in each segment such as research and development, product approval costs, product-related litigation expenses, sales commissions and other directly-allocable sales expenses. Cost of gaming operations and cost of equipment sales primarily include the cost of products sold, service, manufacturing overhead, shipping and installation.

Segment adjusted EBITDA excludes other income and expense, income taxes and certain expenses that are managed outside of the operating segments.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following provides financial information concerning our reportable segments for the years ended December 31:

	2019	2018	2017
Revenues by segment			
EGM	\$ 289,642	\$ 271,025	\$ 199,931
Table Products	10,194	7,651	4,065
Interactive	4,878	6,623	7,959
Total Revenues	304,714	285,299	211,955
Adjusted EBITDA by segment			
EGM	144,718	137,371	107,785
Table Products	3,699	942	(528)
Interactive	(2,355)	(2,107)	(416)
Subtotal	146,062	136,206	106,841
Write-downs and other:			
Loss on disposal of long lived assets	1,068	1,963	3,901
Impairment of long lived assets	5,343	6,089	1,214
Fair value adjustments to contingent consideration and other items	501	701	(630)
Depreciation and amortization	91,474	77,535	71,649
Accretion of placement fees ⁽¹⁾	6,378	4,552	4,680
Non-cash stock compensation	9,001	10,933	—
Acquisitions and integration related costs including restructuring and severance	3,338	3,644	2,936
Initial public offering and secondary costs	530	2,428	—
Legal and litigation expenses including settlement payments	1,844	992	523
New jurisdictions and regulatory licensing costs	—	—	2,062
Non-cash charge on capitalized installation and delivery	2,700	2,081	1,912
Non-cash charges and loss on disposition of assets	—	—	1,202
Other adjustments	148	(2)	2,890
Interest expense	36,248	37,607	55,511
Interest income	(163)	(207)	(108)
Loss on extinguishment and modification of debt	—	6,625	9,032
Other expense (income)	4,622	10,488	(2,938)
Loss before income taxes	\$ (16,970)	\$ (29,223)	\$ (46,995)

(1) Non-cash expense related to the accretion of contract rights under development agreements and placement fees.

The Company's Chief Operating Decision Maker (the "CODM") does not receive a report with a measure of total assets or capital expenditures for each reportable segment as this information is not used for the evaluation of segment performance. The CODM assesses the performance of each segment based on adjusted EBITDA and not based on assets or capital expenditures due to the fact that two of the Company's reportable segments, Table Products and Interactive, are not capital intensive. Any capital expenditure information is provided to the CODM on a consolidated basis. Therefore, the Company has not provided asset and capital expenditure information by reportable segment.

The following provides financial information concerning our operations by geographic area for the years ended December 31 (in thousands):

	Year ended December 31,		
Revenue:	2019	2018	2017
United States	\$ 258,691	\$ 255,256	\$ 181,743
Other	46,023	30,043	30,212
	\$ 304,714	\$ 285,299	\$ 211,955
Long-lived assets, end of year:	2019	2018	2017
United States	\$ 89,597	\$ 80,617	\$ 79,301
Other	19,132	14,022	8,608
	\$ 108,729	\$ 94,639	\$ 87,909

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15. LEASES

Operating Leases

We lease office space, warehouses and office equipment which we classify as operating leases. Operating leases with an initial term of 12 months or less and leases that include an option to terminate without material penalty are not recorded on the balance sheet. Most leases recorded on the balance sheet have an option to renew and do not have an option to terminate without a material penalty. We recognize lease expense for operating leases on a straight-line basis over the term of the lease. The exercise of the renewal options is at our sole discretion. For all our existing leases we are not reasonably certain we will exercise the renewal option. The depreciable life of assets and leasehold improvements are limited by the expected lease term. Our operating lease agreements do not contain any residual value guarantees or restrictive covenants. As most of our operating leases contracts do not provide an implicit rate, we use the interest rate applicable under the Amended and Restated Credit Agreement based on the information available at commencement date in determining the present value of lease payments. We used the Amended and Restated Credit Agreement rate on December 31, 2018, for the initial measurement of all operating leases as of January 1, 2019 that commenced on or prior to that date.

Finance Leases

We lease vehicles which we account for as finance leases using the effective interest method. Our finance lease agreements do not contain material restrictive covenants or material residual value guarantees. We use the rate implicit in the lease at the lease commencement date in determining the present value of lease payments for finance leases.

For the years ended December 31, 2019 and 2018, we did not have any lease agreements with variable lease costs and short-term lease costs, excluding expenses relating to leases with a lease term of one month or less that were immaterial.

The following table discloses the operating and finance assets and liability balances recorded under ASC 842 as of December 31, 2019 and ASC 840 as of December 31, 2018:

	Classification	As of December	As of December
		31, 2019	31, 2018
		(ASC 842)	(ASC 840)
Leases (in thousands)			
Assets			
Operating leases	Operating lease assets(a)	\$ 11,543	N/A
Finance leases	Property and equipment, net(b)	1,815	1,344
Total leased assets, net		<u>\$ 13,358</u>	<u>\$ 1,344</u>
Liabilities			
<i>Current:</i>			
Operating leases	Accrued liabilities	\$ 2,175	N/A
Finance leases	Current maturities of long-term debt	651	408
<i>Non-current:</i>			
Operating leases	Operating lease liabilities, long-term	11,284	N/A
Finance leases	Long-term debt	1,086	851
Total lease liability		<u>\$ 15,196</u>	<u>\$ 1,259</u>

(a) Operating lease assets are recorded net of accumulated amortization of \$1.5 million as of December 31, 2019.

(b) Finance lease assets are recorded net of accumulated amortization of \$0.7 million and \$0.4 million as of December 31, 2019 and 2018, respectively.

The table below discloses the costs for operating and finance leases for the year ended December 31, 2019 and 2018:

	Classification	For the Year Ended December 31,		
		2019	2018	2017
		(ASC 842)	(ASC 840)	(ASC 840)
Operating lease costs (in thousands)				
Operating lease cost - office building	Selling, general and administrative	\$ 1,578	N/A	N/A
Operating lease cost - R&D	Research and development	312	N/A	N/A
Operating lease cost - warehouses	Cost of gaming operations (c)	500	N/A	N/A
Total Operating Lease cost:		<u>\$ 2,390</u>	<u>N/A</u>	<u>N/A</u>
Finance lease cost				
Depreciation of leased assets	Depreciation and amortization	\$ 649	\$ 479	\$ 295
Interest on lease liabilities	Interest expense	42	23	19
Total Finance Lease cost:		<u>691</u>	<u>502</u>	<u>314</u>
Total Lease Cost		<u>\$ 3,081</u>	<u>\$ 502</u>	<u>\$ 314</u>

(c) Subject to capitalization.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The table below sets forth the maturity of the operating and financing leases liabilities for five years and thereafter under ASC 842:

	Operating Leases (a)	Financing Leases	Total
Maturity of lease liabilities (in thousands)			
2020	\$ 2,907	\$ 702	\$ 3,609
2021	2,486	625	3,111
2022	1,957	384	2,341
2023	1,825	86	1,911
2024	1,808	4	1,812
Thereafter	5,612	-	5,612
Total lease payments	\$ 16,595	\$ 1,801	\$ 18,396
Less: interest	3,136	64	3,200
Present value of lease liabilities	\$ 13,459	\$ 1,737	\$ 15,196

(a) Operating leases payments exclude \$14.3 million of legally binding minimum lease payments for leases signed but not commenced as of December 31, 2019.

Future minimum lease payments under ASC 840 as of December 31, 2018 were as follows:

	Total (in thousands)
For the year ended	
December 31,	
2019	\$ 2,817
2020	2,716
2021	2,212
2022	1,470
2023	1,121
Thereafter	5,260
Total	\$ 15,596

The following table sets forth the weighted average of the lease terms and discount rates for operating and finance leases as of December 31, 2019 and 2018.

	As of December 31, 2019 (ASC 842)	As of December 31, 2018 (ASC 840)
Lease term and discount rate		
<i>Operating</i>		
Weighted average remaining lease term (years)	7.0	N/A
Weighted average discount rate	5.9%	N/A
<i>Finance Leases</i>		
Weighted average remaining lease term (years)	2.3	2.7
Weighted average discount rate	2.6%	2.6%

Other Information

The table below discloses cash paid for the amounts included in the measurement of lease liabilities for the year ended December 31, 2019 and 2018:

	Year Ended December 31,		
	2019 (ASC 842)	2018 (ASC 840)	2017 (ASC 840)
Cash paid for amounts included in the measurement of lease liabilities (in thousands)			
Operating cash flows from operating leases	\$ 2,613	N/A	N/A
Operating cash flows from finance leases	\$ 42	\$ 23	\$ 19
Financing cash flows from finance leases	\$ 630	\$ 436	\$ 280

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables present selected quarterly financial information for 2019 and 2018, as previously reported (in thousands).

	Quarter ended March 31, 2019	Quarter ended June 30, 2019	Quarter ended September 30, 2019	Quarter ended December 31, 2019
Consolidated Income Statement Data:				
Revenues	\$ 73,042	\$ 74,509	\$ 79,377	\$ 77,786
Gross profit[1]	53,899	53,674	55,728	54,945
Income from operations	8,348	1,995	5,579	7,815
Net (loss) income attributable to PlayAGS, Inc.	(82)	(7,557)	(5,536)	1,423
Basic (loss) income per share	—	(0.21)	(0.16)	0.04
Diluted (loss) income per share	—	(0.21)	(0.16)	0.04

	Quarter ended March 31, 2018	Quarter ended June 30, 2018	Quarter ended September 30, 2018	Quarter ended December 31, 2018
Consolidated Income Statement Data:				
Revenues	\$ 64,856	\$ 72,822	\$ 75,526	\$ 72,095
Gross profit[1]	48,599	53,701	52,923	51,138
Income from operations	2,238	11,024	10,110	1,918
Net (loss) income	(9,538)	(5,310)	4,347	(10,345)
Basic (loss) income per share	(0.30)	(0.15)	0.12	(0.29)
Diluted (loss) income per share	(0.30)	(0.15)	0.12	(0.29)

[1] Gross profit is total revenues less cost of gaming operations and cost of equipment sales, exclusive of depreciation and amortization.

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

ITEM 15(a)(2). FINANCIAL STATEMENT SCHEDULES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT

PLAYAGS, INC.
(PARENT COMPANY ONLY)

CONDENSED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 282	\$ 13,549
Intercompany Receivables	8	—
Prepaid expenses	26	49
Total current assets	<u>316</u>	<u>13,598</u>
Investment in subsidiaries	134,811	122,972
Other long-term assets	8	—
Total assets	<u>\$ 135,135</u>	<u>\$ 136,570</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Intercompany payables	\$ 1,351	\$ 766
Total current liabilities	<u>1,351</u>	<u>766</u>
Total liabilities	<u>1,351</u>	<u>766</u>
Stockholders' equity:		
Common stock	355	353
Additional paid-in capital	371,311	361,628
Retained earnings	(235,474)	(222,403)
Accumulated other comprehensive loss	(2,408)	(3,774)
Total stockholders' equity	<u>133,784</u>	<u>135,804</u>
Total liabilities and stockholders' equity	<u>\$ 135,135</u>	<u>\$ 136,570</u>

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

PLAYAGS, INC.
(PARENT COMPANY ONLY)

CONDENSED STATEMENTS OF OPERATIONS
(in thousands)

	Year ended December 31,		
	2019	2018	2017
Revenue			
Intercompany revenue	\$ 8	\$ —	\$ —
Total Revenue	<u>8</u>	<u>—</u>	<u>—</u>
Operating expenses			
Selling, general and administrative	25	\$ 30	\$ 286
Total operating expenses	<u>25</u>	<u>30</u>	<u>286</u>
Loss from operations	(17)	(30)	(286)
Other expense (income)			
Equity in net loss of subsidiaries	(11,807)	16,396	28,302
Interest expense	—	1,383	16,518
Loss on extinguishment and modification of debt	—	3,037	—
Other (Expense) Income	72	—	—
Loss before income taxes	<u>(11,752)</u>	<u>(20,846)</u>	<u>(45,106)</u>
Income tax (expense) benefit	—	—	—
Net loss attributable to PlayAGS, Inc.	<u>(11,752)</u>	<u>(20,846)</u>	<u>(45,106)</u>
Foreign currency translation adjustment	1,366	29	743
Total comprehensive loss	<u>\$ (10,386)</u>	<u>\$ (20,817)</u>	<u>\$ (44,363)</u>

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

PLAYAGS, INC.
(PARENT COMPANY ONLY)

CONDENSED STATEMENTS OF CASH FLOWS
(in thousands, except per share data)

	Year ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net loss	\$ (11,752)	\$ (20,846)	\$ (45,106)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Amortization of deferred loan costs and discount	—	—	479
Payment-in-kind interest payments	—	(37,624)	(1,108)
Payment-in-kind interest capitalized	—	—	15,933
Write-off of deferred loan costs and discount	—	3,037	—
Equity income from subsidiaries	11,807	16,396	28,302
Changes in assets and liabilities that relate to operations:			
Prepaid expenses	23	5	(14)
Intercompany payable/receivable	570	365	306
Accounts payable and accrued liabilities	—	—	(36)
Net cash provided by (used in) operating activities	648	(38,667)	(1,244)
Cash flows from investing activities			
Investment in subsidiaries	(13,280)	(12,100)	(7,965)
Distributions received from subsidiaries	—	—	8,084
Net cash (used in) provided by investing activities	(13,280)	(12,100)	119
Cash flows from financing activities			
Repayment of seller notes	—	—	(6,870)
Repayment of senior secured credit facilities	—	(115,000)	—
Proceeds from employees in advance of common stock issuance	—	—	25
Repurchase of shares	(1,320)	—	—
Proceeds from issuance of common stock	—	176,341	—
Proceeds from stock option exercise	685	774	—
Net cash (used in) provided by financing activities	(635)	62,115	(6,845)
(Decrease) increase in cash and cash equivalents	(13,267)	11,348	(7,970)
Cash and cash equivalents, beginning of period	13,549	2,201	10,171
Cash and cash equivalents, end of period	\$ 282	\$ 13,549	\$ 2,201

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

PLAYAGS, INC.
(PARENT COMPANY ONLY)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The stand-alone parent company financial statements of PlayAGS, Inc., (the “ Parent Company”) should be read in conjunction with the Company’s consolidated financial statements and the accompanying notes thereto. For purposes of these condensed financial statements, the Parent Company’s wholly owned and majority owned subsidiaries are recorded based upon its proportionate share of the subsidiaries’ net assets (similar to presenting them on the equity method).

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted since this information is included in the Company’s consolidated financial statements included elsewhere in this Form 10-K.

NOTE 2 - COMMITMENTS AND CONTINGENCIES

The Parent Company is a holding company and, as a result, its ability to pay dividends is dependent on its subsidiaries’ ability to obtain funds and its subsidiaries’ ability to provide funds to it. Restrictions are imposed by its subsidiaries’ debt instruments, which significantly restrict certain key subsidiaries holding a majority of its assets from making dividends or distributions to the Parent Company. These restrictions are subject to certain exceptions for affiliated overhead expenses as defined in the agreements governing the debt instruments, unless certain financial and non-financial criteria have been satisfied.

Long-term debt of the Parent Company consisted of the senior secured PIK notes and the Amaya Seller Note as described below.

Senior Secured PIK Notes

On January 30, 2018, the Company used the net proceeds of the IPO and cash on hand to redeem in full its 11.25% senior secured PIK notes due 2024 (the “PIK Notes”). On the redemption date, the aggregate principal amount of the PIK Notes outstanding was \$152.6 million (comprised of the original principal amount of \$115 million and the remaining principal amount comprised of capitalized interest) and the amount of accrued and unpaid interest was \$1.4 million. In connection with the redemption, the Company repaid all of the outstanding obligations in respect of principal, interest and fees under the PIK Notes and net deferred loan costs and discounts totaling \$3.0 million were written off and included in the loss on extinguishment and modification of debt.

Concurrently with the redemption of the PIK notes, the Company terminated its amended and restated note purchase agreement (the “A&R Note Purchase Agreement”), dated May 30, 2017, among the Company, AP Gaming Holdings, LLC, as subsidiary guarantor, Deutsche Bank AG, London Branch, as holder, and Deutsche Bank Trust Company Americas, as collateral agent, which governed the PIK Notes.

NOTE 3 - CASH FLOW STATEMENT SUPPLEMENTAL DISCLOSURES

The Parent Company charged \$9.0 million and \$10.9 million of stock-based compensation to additional paid-in capital during the year ended December 31, 2019 and 2018, respectively, the expense for which was contributed to the Parent Company’s subsidiaries that employ the employee recipients of the share-based awards. The Parent Company’s subsidiaries also paid for Parent Company expenses incurred in connection with the initial public offering, that occurred in 2018, of approximately \$4.8 million that was recorded as a non-cash distribution to the Parent Company.

Prior to the consummation of the initial public offering, 170,712 shares of common stock were held by management. Pursuant to the Securityholders Agreement dated April 28, 2014 (the “Securityholders Agreement”), these shares were outstanding, but were not considered issued for accounting purposes as they contained a substantive performance condition, a “Qualified Public Offering”, as defined in the Securityholders Agreement, which had to be probable for the holders of these shares to benefit from their ownership. The initial public offering satisfied the substantive performance condition and as a result the shares and related proceeds of \$1.3 million were reclassified from other long-term liabilities to additional paid-in capital and considered issued for accounting purposes, a non-cash investing activity.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	Balance at the beginning of period	Charged to tax expense/(benefit)	Purchase accounting adjustments	Impact of foreign currency exchange rate	Balance at the end of period
Tax-related valuation allowance					
Year ended December 31, 2019	\$ 40,857	\$ 50	\$ 65	\$ 32	\$ 41,004
Year ended December 31, 2018	\$ 33,774	\$ 6,814	\$ 269	\$ —	\$ 40,857
Year ended December 31, 2017	\$ 28,211	\$ 5,557	\$ —	\$ 6	\$ 33,774

**DESCRIPTION OF CAPITAL STOCK OF PLAYAGS, INC.
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2019, PlayAGS, Inc. (the “company,” “we,” “us” and “our”) had one classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Act”): Common stock, par value \$0.01. The following description of the company’s capital stock summarizes certain provisions of its amended and restated articles of incorporation and amended and restated bylaws. The summary does not purport to be complete and is qualified in its entirety by reference to our amended and restated articles of incorporation and amended and restated bylaws and the applicable provisions of Nevada law.

References to “Apollo” and the “Sponsor” refer to Apollo Global Management, Inc. and its subsidiaries. References to “Apollo Group” refer to (a) Apollo Gaming Holdings, L.P. (“Holdings”), (b) Apollo Investment Fund VIII, L.P., (c) each of their respective affiliates (including, for avoidance of doubt, any syndication vehicles and excluding, for the avoidance of doubt, any portfolio companies of Apollo Management VIII, L.P. or its affiliates other than Holdings, AP Gaming VoteCo, LLC (“VoteCo”), the Company and their respective subsidiaries) to which any transfers of our common stock are made and (d) VoteCo to the extent that it has beneficial ownership of shares of our common stock pursuant to an irrevocable proxy.

Capital Stock

The outstanding shares of our common stock are currently held by 5 holders. Our amended and restated articles of incorporation provides that our authorized capital stock consist of 450,000,000 shares of common stock, par value \$0.01 per share, and 50,000,000 shares of preferred stock, par value \$0.01 per share. As of December 31, 2019, we had 35,534,558 shares of common stock and zero shares of preferred stock outstanding.

Common Stock

Voting Rights. The holders of our common stock are entitled to one vote per share on all matters submitted for action by the stockholders, and do not have cumulative voting rights with respect to the election of our directors. Accordingly, a holder of more than 50% of the then-outstanding shares of our common stock will be able, if it so chooses, to determine the outcome of any election of our directors regardless of any vote cast in the election by the holders of the remaining shares.

Dividend Rights. All shares of our common stock are entitled to share equally in any dividends our board of directors may declare from legally available sources, subject to the terms of any outstanding preferred stock. Our senior secured credit facilities and other debt instruments may impose restrictions on our ability to declare dividends with respect to our common stock.

Liquidation Rights. Upon liquidation or dissolution of our company, whether voluntary or involuntary, all shares of our common stock will be entitled to share equally in the assets available for distribution to stockholders after payment of all of our prior obligations, including obligations pursuant to the terms of any then-outstanding preferred stock.

Registration Rights. Under the terms of the Securityholders Agreement, we have agreed to register shares of our common stock beneficially owned by affiliates of Apollo, including the Apollo Group, under certain circumstances.

Other Matters. The holders of our common stock have no preemptive or conversion rights, and our common stock is not subject to further calls or assessments by us. There are no redemption or sinking fund provisions applicable to our common stock, other than pursuant to the gaming and regulatory matters provisions of our amended and restated articles of incorporation. See “—Certain Redemption Provisions.”

Redemption Rights. Our amended and restated articles of incorporation contain provisions establishing the right to redeem the equity securities of disqualified holders if, among other circumstances, such action is necessary to avoid any regulatory sanctions, to prevent the loss or to secure the reinstatement of any license or franchise or if such holder is determined by any gaming regulatory agency to be unsuitable, has an application for a license or permit denied or rejected, or has a previously issued license or permit rescinded, suspended, revoked or not renewed. Our amended and restated articles of incorporation also contains provisions defining the redemption price and the rights of a disqualified security holder.

Preferred Stock

Pursuant to our amended and restated articles of incorporation, our board of directors, without stockholder approval, is authorized to issue, from time to time, up to an aggregate of 50,000,000 shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each such series thereof, including the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption (including sinking fund provisions), redemption prices, liquidation preferences and the number of shares constituting any series or designations of such series. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible future financings and acquisitions and other corporate purposes could, under certain circumstances, have the effect of delaying, deferring or preventing a change in control of us and might affect the market price of our common stock. See “—Certain Anti-Takeover, Limited Liability and Indemnification Provisions.”

Certain Redemption Provisions

Our amended and restated articles of incorporation contain provisions establishing the right to redeem the equity securities of disqualified holders if, among other circumstances, such action is necessary to avoid any regulatory sanctions, to prevent the loss or to secure the reinstatement of any license or franchise, or if such holder is determined by any gaming regulatory agency to be unsuitable, has an application for a license or permit denied or rejected, or causes us to have a previously issued license or permit rescinded, suspended, revoked or not renewed, or if our board of directors determines that such holder is likely to (i) preclude or materially delay, impede, impair, threaten or jeopardize any license or franchise, (ii) cause or otherwise result in, the disapproval, cancellation, termination, material adverse modification or non-renewal of any material contract to which we are party or (iii) cause or otherwise result in the imposition of any materially burdensome or unacceptable terms or conditions on any license or franchise. The amended and restated articles of incorporation also contain provisions defining the redemption price and the rights of a disqualified security holder.

Certain Anti-Takeover, Limited Liability and Indemnification Provisions

We are governed by the Nevada Revised Statutes (“NRS”). Our amended and restated articles of incorporation, our amended and restated bylaws and the NRS contain provisions that could make more difficult the acquisition of us by means of a tender offer, a proxy contest or otherwise, or to remove or replace our current management, and may have the effect of delaying, deterring or preventing a change in control of us.

“Blank Check” Preferred Stock. Our amended and restated articles of incorporation authorize “blank check” preferred stock that could be issued by our board of directors to, among other things, increase the number of outstanding shares or establish a stockholders rights plan making a takeover more difficult and expensive.

Classified Board and Holdings Nomination Rights. Our board of directors is divided into three classes. The members of each class serve staggered, three-year terms (other than with respect to the initial terms of the Class I and Class II directors, which will be one and two years, respectively). Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of stockholders in the year in which their term expires. Under our Stockholders Agreement, so long as the Apollo Group beneficially owns at least 5% of our outstanding common stock, Holdings has the right to nominate a number of directors to our board of directors equal to (a) the total number of our directors multiplied by (b) the percentage of outstanding common stock beneficially owned by the Apollo Group, rounded up to the nearest whole number.

Removal of Directors. Except for any directors elected or otherwise designated pursuant to the terms of any preferred stock, any director or the entire board of directors may be removed at any time, with or without cause, by the affirmative vote of not less than two-thirds of the voting power of our outstanding shares entitled to vote generally in the election of directors.

Vacancies. Vacancies on our board of directors may be filled only by a majority of our board of directors in office, although less than a quorum, or by a sole remaining director. In addition, until the first time the Apollo Group no longer beneficially owns at least 5% of our outstanding common stock, the vacancy of a director nominated by Holdings pursuant to the Stockholders Agreement must be filled by a director nominated by Holdings.

No Stockholder Action by Written Consent. Our amended and restated articles of incorporation do not permit stockholder action by written consent without a meeting, except as otherwise provided with respect to any then outstanding series of our preferred stock in its certificate of designation.

Calling of Special Meetings of Stockholders. Default provisions of the NRS limit the right to call special meetings of our stockholders to the board of directors, any two directors or the president of the corporation, unless otherwise specified in the corporation's amended and restated articles of incorporation or amended and restated bylaws. Our amended and restated articles of incorporation and amended and restated bylaws do not provide any exceptions permitting stockholders to call special meetings.

Advance Notice Requirements for Stockholder Proposals and Director Nominations. Our amended and restated bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder's notice generally must be delivered to and received at our principal executive offices, not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, that in the event that the date of such meeting is advanced more than 30 days prior to, or delayed by more than 60 days after, the anniversary of the preceding year's annual meeting of our stockholders, a stockholder's notice to be timely must be so delivered not earlier than the close of business on the 120th day prior to such meeting and not later than the close of business on the later of the 90th day prior to such meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Our amended and restated bylaws also specify certain requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders. These provisions generally do not apply to nominations of directors made, or business proposals submitted, by the Apollo Group, and these provisions will not affect any rights of the holders of any series of our preferred stock.

Business Combinations and Acquisition of Control Shares. Pursuant to provisions in our amended and restated articles of incorporation and amended and restated bylaws, we have elected not to be governed by certain Nevada statutes that may have the effect of discouraging corporate takeovers. Nevada's "combinations with interested stockholders" statutes (NRS 78.411 through 78.444, inclusive) prohibit specified types of business "combinations" between certain Nevada corporations and any person deemed to be an "interested stockholder" for two years after such person first becomes an "interested stockholder" unless the corporation's board of directors approves the combination (or the transaction by which such person becomes an "interested stockholder") in advance, or unless the combination is approved by the board of directors and sixty percent of the corporation's voting power not beneficially owned by the interested stockholder, its affiliates and associates. Furthermore, in the absence of prior approval certain restrictions may apply even after such two-year period. For purposes of these statutes, an "interested stockholder" is any person who is (1) the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the outstanding voting shares of the corporation, or (2) an affiliate or associate of the corporation and at any time within the two previous years was the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the then-outstanding shares of the corporation. The definition of the term "combination" is sufficiently broad to cover most significant transactions between a corporation and an "interested stockholder." Our amended and restated articles of incorporation provide that these statutes will not apply to us. Nevada's "acquisition of controlling interest" statutes (NRS 78.378 through 78.3793, inclusive) contain provisions governing the acquisition of a controlling interest in certain Nevada corporations. These "control share" laws provide generally that any person that acquires a "controlling interest" in certain Nevada corporations may be denied voting rights, unless a majority of the disinterested stockholders of the corporation elects to restore such voting rights. These laws will apply to us and any person acquiring shares of our common stock if we were to have 200 or more stockholders of record (at least 100 of whom have addresses in Nevada appearing on our stock ledger) and do business in the State of Nevada directly or through an affiliated corporation, unless our amended and restated articles of incorporation or amended and restated bylaws in effect on the tenth day after the acquisition of a controlling interest provide otherwise. These laws provide that a person acquires a "controlling interest" whenever a person acquires shares of a subject corporation that, but for the application of these provisions of the NRS, would enable that person to exercise (1) one-fifth or more, but less than one-third, (2) one-third or more, but less than a majority or (3) a majority or more, of all of the voting power of the corporation in the election of directors. Once an acquirer crosses one of these thresholds, shares which it acquired in the transaction taking it over the threshold and within the 90 days immediately preceding the date when the acquiring person acquired or offered to acquire a controlling interest become "control shares" to which the voting restrictions described above apply. Our amended and restated bylaws provide that these statutes do not apply to any acquisition of our common stock by the Apollo Group or any of its affiliates, or any direct transferee of its shares of our common stock.

In addition, NRS 78.139 also provides that directors may resist a change or potential change in control if the directors, by majority vote of a quorum, determine that the change is opposed to, or not in, the best interests of the corporation.

Amendment to our Articles of Incorporation. The affirmative vote of holders of at least two-thirds of the voting power of our outstanding shares of stock entitled to vote on the matter will be necessary for stockholders to adopt any amendment, modification or repeal of any provision of our amended and restated articles of incorporation.

Amendment to our Bylaws. The affirmative vote of holders of at least two-thirds of the voting power of our outstanding shares of stock entitled to vote on the matter will be necessary for stockholders to adopt any amendment, modification or repeal of any provision of our amended and restated bylaws.

Limitation of Officer and Director Liability and Indemnification Arrangements. Our amended and restated articles of incorporation limits the liability of our officers and directors to the maximum extent permitted by Nevada law. Nevada law provides that our directors and officers will not be personally liable to us, our stockholders or our creditors, for monetary damages for any act or omission in their capacity as a director or officer unless it is proven that the act or omission constituted a breach of their fiduciary duties as a director or officer, as applicable, and the breach involved intentional misconduct, fraud or a knowing violation of law.

Our amended and restated articles of incorporation also generally provide that we shall indemnify to the fullest extent permitted by the NRS, subject to limited exceptions, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, investigation, administrative hearing or any other proceeding by reason of the fact that he or she is or was a director or officer of ours, or is or was serving at our request as a director, officer, employee or agent of another entity, against expenses incurred by him in connection with such proceeding.

We currently maintain liability insurance for our directors and officers. In addition, certain of our directors are also insured under Apollo's professional liability insurance policies and may be indemnified under Apollo's bylaws or other constitutive documents.

We have entered into separate indemnification agreements with each of our directors and executive officers, which are broader than the specific indemnification provisions contained in the NRS. These indemnification agreements require us, among other things, to indemnify our directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct. These indemnification agreements may also require us to advance any expenses incurred by the directors or officers as a result of any proceeding against them as to which they could be indemnified and to obtain directors' and officers' insurance, if available on reasonable terms.

Currently, to our knowledge, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents in which indemnification by us is sought, nor are we aware of any threatened litigation or proceeding that may result in a claim for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers and controlling persons under the foregoing provisions or otherwise, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Corporate Opportunity

Our amended and restated articles of incorporation provide that we expressly renounce any interest or expectancy in any business opportunity, transaction or other matter in which any Covered Apollo Person (as defined in our amended and restated articles of incorporation) participates or desires or seeks to participate in, even if the opportunity is one that we would reasonably be deemed to have pursued if given the opportunity to do so. The renouncement does not apply to any business opportunities that are presented in writing to a Covered Apollo Person solely in such person's capacity as an officer or director of us.

Forum Selection

Our articles of incorporation provide that unless we consent in writing to the selection of an alternative forum, the Eighth Judicial District Court of Clark County, Nevada shall be the sole and exclusive forum for any or all actions, suits or proceedings, whether civil, administrative or investigative or that asserts any claim or counterclaim: (a) brought in our name or right or on our behalf; (b) asserting a claim for breach of any fiduciary duty owed by any of our directors, officers, employees or agents to us or our stockholders; (c) arising or asserting a claim arising pursuant to any provision of the NRS Chapters 78 or 92A or any provision of our amended and restated articles of incorporation or our amended and restated bylaws; (d) to interpret, apply, enforce or determine the validity of our amended and restated articles of incorporation or our amended and restated bylaws; or (e) asserting a claim governed by the internal affairs doctrine, in each such case subject to the Eighth Judicial District Court having personal jurisdiction over the indispensable parties named as defendants therein. Any person or entity purchasing or otherwise acquiring any interest in our capital stock will be deemed to have notice of and consent to this forum selection provision. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated articles of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

Dissenter's Rights

The provisions of Nevada's dissenter's rights statutes (NRS 92A.300 through 92A.500, inclusive) specify certain corporate actions giving rise to the right of a stockholder to demand payment of "fair value" (as defined in NRS 92A.320) of such stockholder's shares, subject to a number of limitations and procedural requirements.

Stockholders' Derivative Actions

Our stockholders may be entitled to bring an action in our name to procure a judgment in our favor, also known as a derivative action, subject to the requirements of applicable law.

Deemed Notice and Consent

Our amended and restated articles of incorporation provide that any person purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed, to the fullest extent permitted by law, to have notice of and consented to all of the provisions of our amended and restated articles of incorporation (including, without limitation, the provisions described above under “—Exclusive Forum”), our amended and restated bylaws and any amendment to our amended and restated articles of incorporation or amended and restated bylaws enacted in accordance therewith and applicable law.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is the American Stock Transfer & Trust Company, LLC.

Securities Exchange

Our shares of common stock are listed on the New York Stock Exchange under the symbol “AGS.”

AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (this "Amendment") is entered into on December 31, 2019, by and between AGS, LLC, a Delaware limited liability company (the "Company"), and SIGMUND LEE ("Executive"), and shall be effective as of January 1, 2020.

WHEREAS, the Company and Executive are parties to an employment agreement dated as of September 1, 2018 (as further modified or amended through the date hereof, the "Employment Agreement"); and

WHEREAS, the Company and Executive desire to amend the Employment Agreement as provided below.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties do hereby agree as follows:

1. The following provision is hereby inserted following the last sentence in subsection 1.1:

As Chief Technology Officer, Executive will be responsible for all of the research and development as it relates to the Company's Electronic Gaming Machine (EGM) business only. For the avoidance of doubt, Executive is not responsible for the Company's table games and interactive divisions in any way. In conjunction with Executive's duties, Executive will be responsible for the personnel required to support the Company's EGM R&D needs, as well as the approved budget for such department. For the avoidance of doubt, Executive is not responsible for setting any of the Company's policies, but rather is only responsible for Executive's department, consistent with the Company Authority Matrix as updated from time to time. Furthermore, Executive acknowledges that Company policies are set by our Chief Executive Officer and Chief Financial Officer consistent with the direction that they receive from the Company's Board of Directors.

2. Capitalized terms not defined in this Amendment shall have the meanings given such terms in the Employment Agreement.
 3. Except as specifically modified by this Amendment, all other terms and conditions of the Employment Agreement are hereby ratified and remain unchanged and in full force and effect.
 4. In the event of any conflict or inconsistency between the terms and conditions set forth in this Amendment and the terms and conditions set forth in the Employment Agreement, the terms and conditions of this Amendment will prevail.
-

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

AGS, LLC

By: David Lopez 1/9/2020
David Lopez
President and Chief Executive Officer

EXECUTIVE

Sigmund Lee 1/5/2020
Sigmund Lee

[Signature Page to Sigmund Lee Amendment to Employment Agreement]

SUBSIDIARIES OF PLAYAGS, INC.
As of December 31, 2019

Name	Jurisdiction of Incorporation
AP Gaming Voteco, LLC	Delaware
PlayAGS, Inc.	Nevada
AP Gaming, Inc.	Delaware
AP Gaming Holdings, LLC	Delaware
AP Gaming I, LLC	Delaware
AP Gaming II, Inc.	Delaware
AP Gaming Acquisition, LLC	Delaware
AGS Capital, LLC	Delaware
PLAYAGS BRASIL LTDA	Brazil
AGS LLC	Delaware
PLAYAGS UK Limited	England and Wales
Gamingo Limited	England and Wales
AGS CJ Corporation	Delaware
AGS CJ Holdings Corporation	Delaware
Cadillac Jack, Inc.	Georgia
PLAYAGS Mexico, S. De R.L. De C.V.	Mexico
PLAYAGS Canada, ULC	British Columbia
Platform 9 Corporation	Delaware
Integrity Gaming LLC	Oklahoma
CNO Investments – Aurora Gaming	Oklahoma
PLAYAGS AUSTRALIA PTY	Australia
AGSi LLC	Nevada
AGS Interactive US, INC.	California
GAMINGO (ISRAEL), LTD.	Israel
AGSi Holdings LLC	Nevada
Gameiom Technologies Limited	Isle of Man
AGSi Malta Limited	Malta
Gameiom Technologies (Gibraltar) Limited	Gibraltar

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-226615) and Form S-8 (No. 333-222740) of PlayAGS, Inc. of our report dated March 4, 2020 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Las Vegas, Nevada
March 4, 2020

Certification of Principal Executive Officer
of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, David Lopez, certify that:

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

Date: March 4, 2020

/s/ DAVID LOPEZ

David Lopez

Chief Executive Officer, President and Director (Principal Executive Officer)

**Certification of Principal Financial Officer
of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)**

I, Kimo Akiona, certify that:

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

Date: March 4, 2020

/s/ KIMO AKIONA

Kimo Akiona

Chief Financial Officer, Chief Accounting

Officer and Treasurer

(Principal Financial and Accounting Officer)

Certification of Principal Executive Officer and Principal Financial Officer**Pursuant to 18 U.S.C. Section 1350**

In connection with this Annual Report on Form 10-K of PlayAGS, Inc. (the "Company") for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David Lopez, as Chief Executive Officer of the Company, and Kimo Akiona, as Treasurer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

Date: March 4, 2020

/s/ DAVID LOPEZ

David Lopez

*Chief Executive Officer, President and Director
(Principal Executive Officer)*

Date: March 4, 2020

/s/ KIMO AKIONA

Kimo Akiona

*Chief Financial Officer, Chief Accounting
Officer and Treasurer
(Principal Financial and Accounting Officer)*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to PlayAGS, Inc. and will be retained by PlayAGS, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.