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, 2022
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)**

6775 S. Edmond St., Ste #300
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:

Title of each class	Trading Symbol	Name of each exchange on which registered
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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the fi ling reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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, 2022, the market value of voting and non-voting common equity held by non-affiliates of the registrant was $146,103,692[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 30, 2022. As of March 6, 2023, there were 37,795,309 shares of the Registrant's common stock, $.01 par value per share, outstanding.

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[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;
- risks associated with the global COVID-19 pandemic on our business operations, financial performance, results of operations, material procurement, financial positions;
- 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, Texas or Washington, the states in which the majority of our revenue has been derived, or material decreases in our revenue with our 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 effective 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;
- 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) EGMs that use the results of historical horse races ("HHR") in their game math, which are allowed in several niche markets and raceways, (iii) table game products and (iv) 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, 2022, approximately 72% 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 a single deck card shuffler for poker tables, *Dex S, and* our new second shuffler, the *Pax S* single-deck shuffler. Our Interactive segment generates revenues from (1) real-money gaming (“RMG”) revenues, which are earned primarily based on a percentage of the revenue produced by the games we offer to to our online casino customers, (2) business-to-customer ("B2C") social products where consumers purchase virtual coins used to play social casino games and (3) business-to-business ("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. 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. Our product compliance and jurisdictional engineering division located in Atlanta oversees 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, Reno, Nevada, and Scottsdale, Arizona and independent contractors in Noida, India. 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 and Noida, India.

Products

We provide our casino customers with HHR, Class II and Class III EGMs for the tribal and commercial gaming markets, as well as more than 60 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 card shufflers. In our Interactive segment, we offer a library of games for online casino operators, a library of casino-themed social and mobile games, and B2B social casino solutions available to land-based casino customers.

EGM Segment

EGMs constitute our largest segment, representing 91.9% of our revenue for the year ended December 31, 2022. In 2022, we had a library of over 550 proprietary game titles that we offer for delivery on our EGM cabinets. These include our premium lease-only cabinets *Orion Starwall*, *Orion Curve Premium*, *Orion Rise,* and *Big Red* ("Colossal Diamonds"). Also, our core cabinets that are available for sale and lease include the newly released *Spectra UR43,* as well as the *Orion Portrait*, *Orion Slant, Orion Curve*, *Orion Upright* and *ICON*. In addition to providing complete EGM units, we offer conversion kits, which are essentially software containing new games that allow existing game titles to be converted to other game titles offered within that operating platform and on an existing cabinet.

We design all of our cabinets with the intention of capturing the attention of players on casino floors while aiming to maximize operator profits. We offer our customers the option of either leasing or purchasing our EGMs and associated gaming systems. Currently, we derive a substantial portion of our revenues from EGMs installed under revenue sharing or fee-per-day lease agreements, also known as “participation” agreements, and we refer to such revenue generation as our “participation model”.

Our core game titles are targeted at maintaining and growing our current installed base and we believe that it is the performance of these game titles that our customers value. Our top-performing game titles include *Rakin' Bacon!* and a version used only on our premium games called *Rakin' Bacon Deluxe*. In addition to these titles we have hundreds of additional titles that we design our core titles to provide a universal appeal to casino patrons. Our game studios are focused on continually producing new content that is then released to the market on a regular basis. We deliver our content on the cabinets below:

Premium - Lease-Only Cabinets

Orion Starwall – The *Orion Starwall* video display, first introduced at the Global Gaming Expo 2019 and launched 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 Curve Premium – The *Orion Curve Premium* is our premium cabinet of the *Orion Curve*, premium hardware and merchandising adds to the experience, with a 10-foot showcase platform designed for 4-pods or 5-pods. Featuring an eye-catching 360-degree video display and theme-specific illuminated wedge spacers, the package provides an intimate, theater-like gameplay experience designed for social distancing yet community-style celebration on the circular overhead display.

Orion Rise – Unveiled at the Global Gaming Expo in 2019, this premium tower platform is 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.

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.

Core - For Sale and Lease Cabinets

Spectra UR43 - The *Spectra UR43* presents a 43-inch ultra HD 4k portrait monitor outlined with clean game-controlled eclipse lighting. This cabinet is an evolution of the *Orion Portrait* cabinet and leads as the first cabinet in a new generation of cabinets available in Class II, Class III, and historical horse racing markets. It has a new, simple back design that provides for easy setup and connectivity for fast service.

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.

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 Curve – Launched in 2020, the *Orion Curve* features an LCD Ultra HD curved portrait monitor for a more immersive game-play experience. The 49-inch curved touchscreen portrait monitor features 4K resolution for cinematic slot entertainment highlighted by spectacular color, breathtaking contrast, and incredible detail. Our signature *Orion* U-shaped lighting design showcases this striking platform with more than 400 game-controlled LED lights that change color based on game events, music, and sounds.

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 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.

Table Products Segment

We offer our customers more than 60 unique table products, including live felt table games, side bets, 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"). Our table products segment offers a full suite of side bets and specialty table games as well as progressive technology products that provide this enhancement and increase gaming activity and holds for our casino customers. 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, 2022, we had placed 5,051 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.

Progressives:
Bonus Spin Blackjack is a first-of-its kind wheel-based table product 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 draws 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.

Due to our success with *Bonus Spin Blackjack*, we introduced an upgraded table game progressive side bet system called *Bonus Spin Xtreme*. 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 community-style table games like roulette, baccarat, and craps, while enabling all participating players to be rewarded with a community prize 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.

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 *Jackpot Hold'em*. *STAX Progressive*, has an eye-catching, colorful display and advertises the progressive levels with the opportunity for players to win more and we have enhanced it further with new features in high demand by casino operators including wide area progressive functionality with single and multi-site meters.

Side-bets:
Our top-performing side-bet games include *Buster Blackjack, Lucky Lucky, In-Bet*, *Push Your Luck*, and *Trifecta Blackjack*. These side bets provide additional excitement for existing table games and encourage players to wager more money, thus creating more revenue for our casino customers.

Premium specialty table games:
Our premium game titles, among other, include *Criss Cross Poker*, Jackpot Hold'em and *Chase The Flush*. 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.

Shufflers and Utility:
One of the newer areas of our Table Products segment consists of ancillary equipment offerings to table games, such as card shufflers, table signage, and our ACOT chip tray, 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 shufflers, *Dex S* for poker tables and the *PAX S* for specialty tables. These shufflers feature a streamlined design with fewer moving parts, making them exceptionally functional, economical, and reliable, and they easily fit into existing table cutouts so casino operators can seamlessly install without changing their current layouts or replacing any tables. 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 Segment

We operate a Business-to-Business ("B2B") game aggregation platform for online real-money gaming ("RMG") operators. Through our remote gaming server, we deliver a library of more than 1,000 games, many of which are AGS titles, developed by our internal game-development studios. We also partner with a host of third-party game developers to offer game content across mobile, desktop, and social channels – delivering an experience wherever and whenever players want to engage.

AGS also offers Business-to-Consumer ("B2C") free-to-play social casino apps that players across the globe can enjoy anytime online or on their mobile device. 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 social casino library includes a variety of game titles including video slots, spinning reels, video poker, blackjack, bingo, and tournaments. Our most popular app, Lucky Play Casino, offers mobile players all the thrills of Vegas casinos. Players can choose from dozens of AGS player-favorite slot games, as well as other casino classics like video poker, blackjack, and bingo. Our apps also feature in-app tournaments, rumbles, VIP bonuses, and unique interactive challenges.

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, and Latin America. Our customers include large tribal customers like the Chickasaw Nation 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. These sources may be affected by adverse global factors such as the COVID-19 pandemic.

Manufacturing

Manufacturing commitments are generally based on projected quarterly demand from customers. 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. However, as a result of the disruption in global supply chains precipitated by the COVID-19 pandemic and geopolitical unrest, there has been an increase in the price of components used in our EGMs and a significant increase in freight costs for the transportation of our products.

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 EGMs, 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 gaming products in the state accounted for approximately 22% of our total revenue for the year ended December 31, 2022. Texas and Washington are our second and third largest domestic markets and our gaming products in these states each accounted for approximately 8% of our total revenue for the year ended December 31, 2022.

For the year ended December 31, 2022, we did not receive more than 10% of our total revenue from any one customer.

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 and lease 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 and return the games to the Company, a provision which renders the contracts effectively month-to-month contracts. 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) real-money gaming (“RMG”) revenues, which are earned primarily based on a percentage of the revenue produced by the games we offer to to our online casino customers, (2) business-to-customer ("B2C") social products where consumers purchase virtual coins used to play social casino games and (3) business-to-business ("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.

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, 2022, we employ 324 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, Scottsdale, Arizona and Sydney, Australia locations with independent contractors also assisting in India. Our studio in Las Vegas, Nevada 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 India and 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 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 EGMs, 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”), Light & Wonder, Inc. (formerly known as Scientific Games Corporation), 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, Light & Wonder, Inc., 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 and Cost Fluctuations

Our operational expansion is affected by the cost of hardware components, which are not considered to be inflation sensitive in the long term, but rather, sensitive to changes in technology and competition in the hardware markets. However, as a result of the disruption in global supply chains precipitated by the COVID-19 pandemic and other geopolitical disruptions, there has been an increase in the price of components used in our EGMs and certain Table Products, as well as a significant increase in freight costs for the transportation of our products. 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.

Human Capital Management

AGS is a global company with offices and employees in Australia, Canada, Israel, Brazil, Mexico, the United Kingdom and the United States. As of December 31, 2022, we had 659 full-time employees in the United States, 143 full-time employees in Mexico, 69 full-time employees in Australia, 5 full-time employees in Israel, 9 full-time employees in the United Kingdom, 5 full-time employees in Canada, and 2 full-time employees in Brazil.

The Company believes that our employees are a strategic business advantage and as such, we place a high value on delivering a positive employee experience and an engaging employee culture that enables us to attract, retain, and reward our employees. We faced the COVID-19 pandemic with confidence and the belief that maintaining engagement with our greatest asset, our employees, would pay dividends when we emerge from the pandemic. In 2022, our business continued to recover from the pandemic, and we benefitted from the actions that we took during the pandemic to continue to foster our inclusive employee-centric culture. The actions that benefitted us and that we continued throughout 2022 include the following:

- We continued to offer benefits to our employees that help them navigate our current hybrid working model. These benefits include employee assistance programs as well as mental and emotional resilience resources to enhance our employees' well-being.
- We regularly engaged with our employees through townhall meetings led by our Chief Executive Officer, David Lopez.
- We also took decisive actions early in the pandemic to ensure the safety of our employees by transitioning our workforce, where feasible, to a remote working environment and we are continuing to ensure that our hybrid working model is operating responsibly and safely.

Employee Culture

The Company's employee-focused culture provides greater job satisfaction, collaboration, work performance, and employee morale, which in turn results in empowered and productive employees. This has been recognized by the Company's receipt of various employee engagement awards based on employee feedback through confidential surveys and reviews, such as the prestigious 'Best and Brightest Companies to Work For in the Nation®' (every year from 2017 to 2022); 'Atlanta's Best and Brightest Companies to Work For®' (every year from 2017 to 2022); Glassdoor's 'Best Places to Work' in 2020; and recognition in the 'Nevada Top Workplaces' and 'Atlanta Top Workplaces' in 2020.

We believe that we foster an engaged employee culture by having a clear mission and strong core values, focused on innovation, trust, respect, empowerment, service, and honesty. Our community focus means that we give back to our communities and work to strengthen them.

The Company provides a flexible work environment and allows remote work whenever practical to our business, which, we believe, makes our employees more dedicated and engaged because they are trusted to meet their deliverables in a manner that provides work-life balance and accommodates their lifestyles. AGS also prioritizes employee communication, through regular town halls delivered by our CEO and other executives; frequent email communications; a SharePoint site with easily accessible Company information; the Companywide use of Microsoft Teams for meetings, virtual events, documents and information sharing, and chat; a focus on leveraging our internal corporate social network for employee engagement and communication; and a dedicated group of employees called Culture Crew who plan and execute employee engagement, appreciation and community service events.

Diversity, Equity and Inclusion

The diversity of ideas, perspectives, skills, knowledge, and cultures across the Company facilitates innovation, is a key competitive advantage, and, we believe, is one of our strengths. We are committed to continuing to make diversity, equity, and inclusion part of everything we do – including providing a workforce that creates a sense of belonging and opportunities for everyone.

At AGS, our diverse workforce is why we continue to win awards for our employee culture and our innovation. As of December 31, 2022, approximately 28% of the Company's global workforce was female, which is consistent with current trends in our industry, and 24% of the Company's employees in managerial roles were female. As of December 31, 2022, minorities represented approximately 44% of the Company's global workforce, of which 33% of our global employees in managerial roles were minorities. Within the Company's C-Suite, which comprises our senior executive team, 29% of our leaders were women and 57% were minorities. In addition, there are two women who serve on our Board of Directors comprising more than 30% of our Board. Annually, AGS participates in the 'Best and Brightest Companies to Work For' program which conducts an anonymous employee questionnaire and benchmarks the Company's human resource practices compared to other companies in the region and across the nation. In 2022, U.S. employees rated AGS 95.5% in the Diversity, Equity and Inclusion category, 4.2% higher than the national average.

The Company has a diversity, equity, and inclusion task force called I.D.E.A. Squad. I.D.E.A. is short for "Inclusion, Diversity, Equality & Acceptance." The task force is comprised of employees from across multiple departments and across the globe, with executive involvement from the Chief Executive Officer, as well as other senior leaders. The role of this task force is to empower people, inside the Company and in our communities, by respecting, embracing, and socializing what makes us different, no matter our age, gender, ethnicity, religion, disability, sexual orientation, education, and national origin. The task force focuses on four key issues:

- Creating opportunities in underprivileged communities;
- Encouraging diversity of thought;
- Promoting education on the topics of racism and discrimination; and
- Celebrating diversity across various channels.

The Company conducts annual mandatory diversity training for all employees focused on diversity on the job and the changing workplace. This training defines diversity, provides coursework on how to leverage the diversity that exists within an organization, and dispels common myths that surround the topic of diversity. For our employees of color identified as future leaders, we also offer participation in McKinsey Black Leadership Academy's Management Accelerator. This program is designed to help equip our aspiring leaders of color with the capabilities, mindsets, behaviors, and network needed to achieve their professional aspirations — focusing on building core management and leadership capabilities.

AGS also makes diversity and inclusion a strategic recruiting priority through our partnership with JobTarget, which automatically posts our open positions to various online job boards targeting diverse candidates including people of color, women, people living with disabilities, and other protected and/or underrepresented job seekers.

Veteran Recruitment & Support

We are committed to hiring veterans, empowering those veterans in transition to the civilian sector, and supporting our veterans and their families in their communities. The Company actively recruits for qualified military veterans by posting our open positions on MilitaryVetJobs, Veterans Enterprise, JOFDAV – Job Opportunities for Disabled American Veterans, Hire Our Heroes, US Military, and RallyPoint. Thirty-three percent (33%) of our C-Suite, and seven percent (7%) of our U.S. employee base, served in the military. Because of their backgrounds and experience, we believe, veterans bring leadership, technical skills, and a spirit of collaboration to AGS. Once employed with AGS, the Company gives veterans the opportunity to make the most of their skills and abilities. We partner with America’s Warrior Partnership, a national nonprofit organization dedicated to empowering communities through helping veterans and their families find the services and support they need in their local communities. The Company also actively supports veterans through Operation Gratitude and other organizations and outreach.

Competitive pay and benefits

AGS’ compensation programs are designed to align the compensation of our employees with the Company’s performance and to provide the proper incentives to attract, retain and motivate employees to achieve growth goals. The structure of our compensation programs balances incentive earnings for both short-term and long-term performance, specifically:

- We provide employee wages that are competitive and consistent with employee positions, skill levels, experience, knowledge, and geographic location.
- We align our executives’ long-term equity compensation with our shareholders’ interests by linking realizable pay with stock and Company performance.
- All full-time employees are eligible for medical, dental, and vision insurance, paid and unpaid leave, a 401(k) retirement plan that includes Company match, and life and disability/accident coverage. We also offer flexible time-off, paid marriage, maternity, and supporting parental leave, fertility and family planning benefits, wellness programs, employee assistance programs, and tuition reimbursement.
- From time to time, with Board approval, the Company grants employees ownership opportunities in the Company through equity-based awards.

Patent Incentive Program

The establishment and maintenance of a strong patent portfolio is a corporate objective of the Company. To stimulate inventions that lead to patentable subject matter, the company has adopted a patent award program for awards and additional recognition to be given to active AGS employees who are listed as an inventor on certain patents or patent applications.

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 and the related costs can be significant.

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 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 is the summary of the risks factor disclosures. Our business is subject to a number of risks, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows, and prospects. These risks are discussed more fully below and include, but are not limited to, risks related to:

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.
- Our success is dependent upon our ability to adapt to and offer products that keep pace with evolving technology related to our businesses.
- 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.
- 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 business depends on the protection of our intellectual property and proprietary information and on our ability to license intellectual property from third parties.
- 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.
- The global COVID-19 pandemic had a significant adverse impact and in the future similar events could have a material adverse impact on our operations and financial performance, as well as on the operations and financial performance of many of the customers and suppliers in the gaming industry that we serve. We are unable to predict the extent to which pandemics and related impacts will adversely impact our business operations, ability to procure materials, financial performance, results of operations and the achievement of our business objectives.
- We may not successfully enter new markets and potential new markets may not develop quickly or at all.
- 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.
- 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.
- Smoking bans in casinos may reduce player traffic and affect our revenues.
- 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 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 rely on information technology and other systems and any failures in our systems could disrupt our business and adversely impact our results.
- 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.
- Our business is dependent on the security and integrity of the systems and products we offer.
- Slow growth in the development of new gaming jurisdictions or the number of new casinos, declines in the rate of replacement of existing EGMs and ownership changes and consolidation in the casino industry could limit or reduce our future prospects.
- 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 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 risks related to operations in foreign countries and outside of traditional U.S. jurisdictions could negatively affect our results.
- Foreign currency exchange rate fluctuations and other risks could impact our business.
- Our business is subject to quarterly fluctuations.
- We could face risks associated with, or arising out of, environmental, health and safety laws and regulations.
- 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 revenues are vulnerable to the impact of changes to the Class II regulatory scheme.
- 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.
- 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.
- We generate a substantial amount of our total revenue from one customer and in three states.
- 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 detrimentally suffer.
- 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.
- 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 EGMs, games and systems.
- Continued operation and our ability to service several of our installed EGMs depend upon our relationships with service providers, and changes in those relationships could negatively impact our business.
- We have a history of operating losses and a significant accumulated deficit, and we may not achieve or maintain profitability in the future.
- Our inability to complete future acquisitions and integrate those businesses successfully could limit our future growth.
- Failure to attract, retain and motivate key employees may adversely affect our ability to compete.
- Changes in tax regulation and results of tax audits could affect results of operations of our business.
- Our internal controls over financial reporting may be insufficiently documented, designed or operating.

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 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 variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Risks Related to Ownership of Our Common Stock

- Our stock price may fluctuate significantly.
- 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 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.”
- 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 organizational documents may impede or discourage a takeover, which could deprive our investors of the opportunity to receive a premium for their shares.
- 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.
- 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.
- We do not anticipate paying dividends on our common stock in the foreseeable future.

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.

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 EGMs 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 EGMs) 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 EGMs 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 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 RMG 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, EGMs, 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.

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 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 EGMs, 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 the COVID-19 pandemic 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. Consumer spending may also be affected by higher rates of inflation or a prolonged period of moderate inflation, in the United States or globally. 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.

The global COVID-19 pandemic had a significant adverse impact and in the future similar events could have a material adverse impact on our operations and financial performance, as well as on the operations and financial performance of many of the customers and suppliers in the gaming industry that we serve. We are unable to predict the extent to which pandemics and related impacts will adversely impact our business operations, ability to procure materials, financial performance, results of operations, financial position and the achievement of our business objectives.

The COVID-19 pandemic negatively impacted the global economy, with particular impact to the gaming industry, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in the financial markets, and increased unemployment levels. In addition, the pandemic resulted in temporary closures of many businesses, including those of our casino customers in 2020, and resulted in the institution of physical distancing and sheltering in place requirements in many states and communities. As a result of pandemic, there has been a decrease in the amount of money spent by consumers in our international locations on our revenue shared installed base and the amount of daily fees of our participation EGMs. Furthermore, general macro-economic factors have resulted in a decline in levels of consumer disposable incomes and personal consumption spending particularly in our international locations. Consequently, demand for our products and services has been and may continue to be significantly impacted, which has adversely affected our revenue and profitability and could continue to do so in the future. Specifically, our international gaming operations revenue and total equipment sales have decreased compared to pre-pandemic levels. Furthermore, the pandemic impaired and similar events could continue to impair our ability to maintain sufficient liquidity, particularly if casinos and other gaming businesses close again or physical distancing and other COVID-19-protective measures prevent them from opening at full capacity, the impact on the global economy worsens and further impacts the disposable income available to our casino customers' patrons, or customers continue to delay making payments to us under existing obligations. Furthermore, because of changing economic and market conditions affecting the gaming industry, our ability to achieve our business objectives have been impacted and may continue to be impacted in the future. Our business operations may be disrupted because our workforce may be subject to illness, quarantines, government actions, and other restrictions imposed in connection with a pandemic. As a result, the Company may take several actions to adapt such as implementing short-term furloughs, company-wide salary reductions, and workforce reductions. In such situations we may need to seek additional debt or equity financing or, if needed and to the extent available, under federal programs. The extent to which the COVID-19 pandemic or future similar events will further impact our business, results of operations, and financial condition, as well as our capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. In addition, if vaccines offer only limited protection, we expect to see continued fluctuations in business openings and closures as communities respond to local outbreaks, which could prolong the global economic impact.

The COVID-19 pandemic or future similar events may also exacerbate the risks disclosed in our Annual Report, including, but not limited to: our ability to comply with the terms of our indebtedness, our ability to generate revenues, earn profits and maintain adequate liquidity, our ability to service existing and attract new customers, maintain our overall competitiveness in the market, the potential for significant fluctuations in demand for our services, overall trends in the gaming industry impacting our business, as well as potential volatility in our stock price.

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 United States 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 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.

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 United States 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.

States and other jurisdictions may amend or repeal gaming enabling legislation which could materially impact our business. 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 or renew a license required in a particular jurisdiction for our games and EGMs, 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.

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

Some United States 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 EGMs 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. Further, 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 and Class III 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 entered into agreements in other jurisdictions to 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 EGMs, 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 notes 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 a 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. Additionally, as our employees continue to work remotely during the ongoing COVID-19 pandemic, there exists a risk to our internal networks in the event that our employees' devices, networks, and security systems become compromised. Further, 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 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 B2B and B2C 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 EGMs and other systems. We incorporate security features into the design of our EGMs 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 players 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 EGM 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 EGM 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 or players 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 EGMs and ownership changes and consolidation in the casino industry could limit or reduce our future prospects.

Demand for our new participation EGM 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 EGMs. 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 EGM, table 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 we have forecasted.

In addition, the construction of new casinos or expansion of existing casinos fluctuates with demand, general economic conditions and the availability of financing. 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, EGM 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 EGM 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 customers' 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 EGMs 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 the COVID-19 pandemic, 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. As a result of the disruption in global supply chains precipitated by the COVID-19 pandemic and geopolitical unrest, there has been an increase in the price of components used in our EGMs and certain Table Products and a significant increase in freight costs for the transportation of our products. Relatedly, due to insufficient supply of certain components, we have been required to source components and pay for air freight at increased rates. We have then had to prioritize our customer delivery schedules. Any additional price increases could decrease the sales or leasing of our products, could increase our operating costs and those of our customers, and could have a material adverse effect on the results of our operations.

The risks related to operations in foreign countries and outside of traditional United States 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 as well as RMG online operations in the United Kingdom and Europe. In addition to these locations, we have employees and contractors in Australia, Brazil, Ukraine, India, and Israel. 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
- United States 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.

The invasion of Ukraine by Russian troops and the retaliatory measures taken by the U.S., NATO and other countries have created global security concerns and economic uncertainty that could have a lasting impact on regional and global economies. We have approximately 30 contractors located in the Ukrainian region. These contractors work in our interactive business and provide services that assist in the operations of our remote gaming servers used for RMG. While these contractors perform their services remotely, given the escalating tensions and uncertainty in the region, these contractors are likely to experience delays in performing such services and may be unable to perform such services altogether. Moreover, our interactive business is likely to experience service disruptions or delays as a result of the conflict. We do not source products from this region, nor do we have essential equipment in Ukraine. We are also taking action to mitigate any impacts of any disruptions caused by the conflict, which include diverting service and support resources outside of the affected region.

The Company supplies certain equipment pursuant to the North American Free Trade Agreement or NAFTA (now known as the U.S.-Mexico-Canada Agreement or USMCA) and may be subject to audits, assessments, and penalties for non-compliance. While the Company maintains records to support such inquiries and confirm its compliance, the Company cannot be certain that it will not face costs and penalties for non-compliance which may be material to the Company.

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

For the year ended December 31, 2022, we derived approximately 12% 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 gaming operations revenues from casino operators in the United States 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 United States 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 EGMs. 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.

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 in three states.

For the year ended December 31, 2022, approximately 22% of our total revenue was derived from the state of Oklahoma. Additionally, for the year ended December 31, 2022, Texas and Washington each accounted for approximately 8% of our total revenue. The significant concentration of our revenue in Oklahoma, Texas and Washington means that local economic, regulatory and licensing changes in Oklahoma, Texas and Washington 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, Texas or Washington, 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 or financial condition and results of operations. In addition, changes in our relationship with our largest customers, including any disagreements or disputes, a decrease in revenue share, removal of EGMs 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 detrimentally suffer.

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 EGMs, 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 detrimentally suffer.

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 our 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 our 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 EGMs, 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 EGMs, 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 EGMs depends upon our relationships with service providers, and changes in those relationships could negatively impact our business.

We operate many EGMs 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, 2022, we had an accumulated deficit of approximately $353.1 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, 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 related workforce. 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. Experienced and capable personnel in the casino and gaming industry remain in high demand, and there is continual competition for their talents. Although we believe our compensation, benefits and other employment amenities are competitive in the markets in which we compete for talent, we may have difficulty attracting sufficiently experienced and capable personnel or retaining and motivating talented employees, and in such events our business may suffer.

Further, as a result of current global economic conditions, we are exposed to wage inflation which may have an adverse effect on our business. In recent times, we have experienced difficulties hiring and retaining key qualified personnel due to intense competition for such resources and resulting wage inflation.

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, the United Kingdom, Brazil, Australia, Israel, Malta and Gibraltar. 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.

Our internal controls over financial reporting may be insufficiently documented, designed or operating.

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, or December 31, 2023. 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, 2022, we had $571.4 million aggregate principal amount of outstanding indebtedness, in addition to $40.0 million available for borrowing under the revolving credit facility at that date. For the year ended December 31, 2022, we had debt service costs of $40.3 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 contains 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. 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. See a full description of liquidity in “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources".

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Amended Credit Agreement are at variable rates of interest linked to the Secured Overnight Financing Rate (“SOFR”) and expose us to interest rate risk. The Federal Reserve, in conjunction with the Alternative Reference Rate Committee, a committee convened by the Federal Reserve that includes major market participants, identified SOFR, a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities, as its preferred alternative rate for US Dollar LIBOR (“USD LIBOR”). Given that SOFR is a secured rate backed by government securities, it will be a rate that does not take into account bank credit risk (as is the case with USD LIBOR). SOFR is therefore likely to be lower than USD LIBOR and is less likely to correlate with the funding costs of financial institutions. As a result, parties may seek to adjust the spreads relative to such reference rate in underlying contractual arrangements, and there can be no assurance that SOFR will perform in the same way as USD LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, regulatory, judicial or other events.

At this time, it is not possible to predict how markets will respond to SOFR or other alternative reference rates as the transition away from the USD LIBOR benchmarks is anticipated in coming years. While such an event would not affect our ability to borrow or maintain already outstanding borrowings, it could lead to an increase in our borrowing costs.

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. See Item 15. “Exhibits and Financial Statement Schedules” Note 12. "Commitments and Contingencies" for a description of a current securities complaint that has been filed against us and is not yet resolved.

We are an “emerging growth company,” and are able to 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 will be an “emerging growth company” until December 31, 2023, which is the last day of our fiscal year following the fifth anniversary of the consummation of our initial public offering. 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.

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 and our amended and restated bylaws 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 of directors 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;
- 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 and bylaws 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 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, 2022, we had 412,210,869 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 2,831,512 shares for issuance upon exercise of outstanding stock options and restricted shares. 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.

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.

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."

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We currently lease the following properties:

Location	Purpose	Square Footage	Segment
Oklahoma City, Oklahoma	Administrative offices, manufacturing and warehousing	144,688	EGM, Table Products
Duluth, Georgia	Research and development	55,264	EGM
Las Vegas, Nevada	Corporate headquarters	25,088	EGM, Table Products
Atlanta, Georgia	Research and development	19,533	EGM
Mexico City, Mexico	Warehousing	18,191	EGM
Sydney, Australia	Research and development	8,805	EGM
Sydney, Australia	Research and development	8,450	EGM
Austin, Texas	Research and development	4,047	EGM
Mexico City, Mexico	Administrative offices	3,972	EGM
Reno, Nevada	Research and development	3,705	EGM
Scottsdale, Arizona	Research and development	2,750	EGM
Tel Aviv, Israel	Research and development	1,850	Interactive
Hinckley, United Kingdom	Administrative offices	1,452	Interactive
Gibraltar	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. See Item 15. "Exhibits and Financial Statement Schedules" Note 12. "Commitments and Contingencies" for a detailed description of various claims and legal actions we are party to.

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.

Holders

On March 6, 2023, we had 4 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.

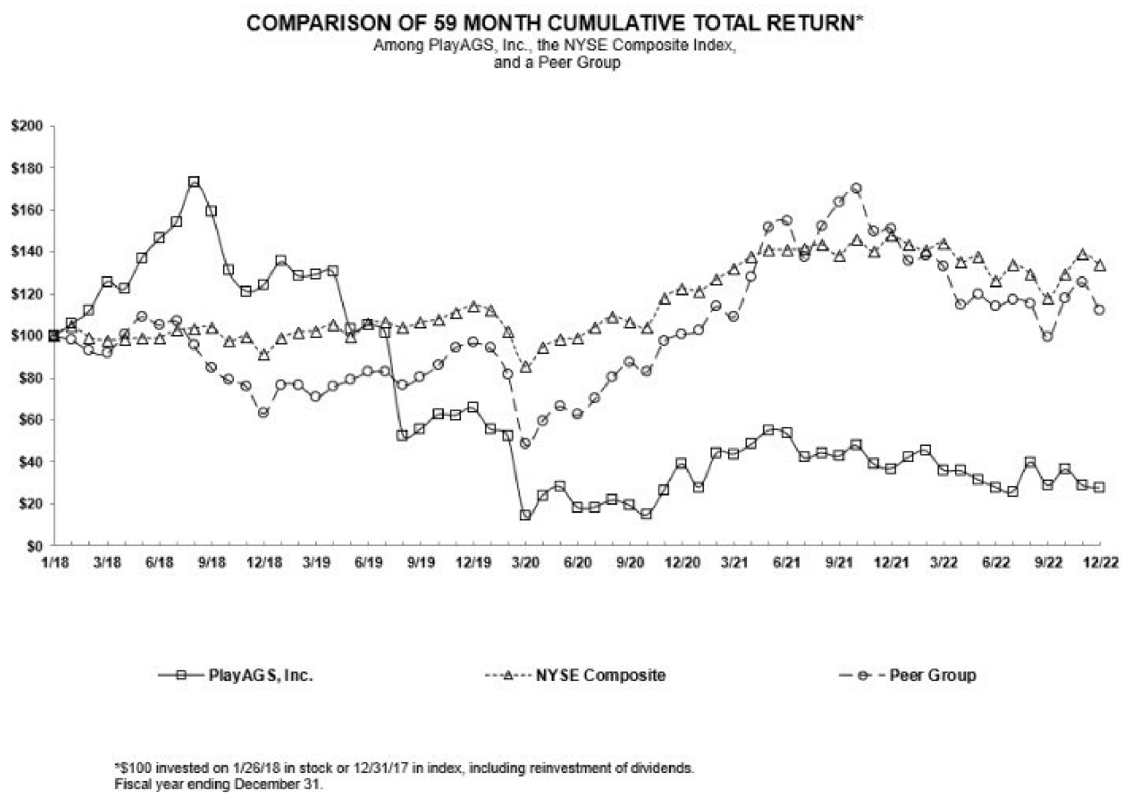
The ability of our board of directors to declare a dividend is also subject to limits imposed by Nevada corporate law. Under Nevada law, our board of directors and the boards of directors of our corporate subsidiaries incorporated in Delaware may declare dividends only to the extent of our “surplus,” 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, 2022. 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 Light & Wonder, Inc. (Nasdaq Composite Index: LNW).



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 NYSE 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. [RESERVED].

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 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, 2021 compared to the year ended December 31, 2020, 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, 2021.

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 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, 2022, approximately 72% 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 EGMs;
- our revenue share percentage with customers;
- the capital budgets of our customers;
- the level of replacement of existing EGMs 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 EGMs 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.

The factors above have been significantly affected by the COVID-19 pandemic and the related closure of nearly all of our casino customer locations in fiscal year 2020. Due to the business disruption caused by the rapid nationwide spread of the coronavirus and the actions by state and tribal governments and businesses to contain the virus, almost all of the Company's customers closed their operations during the months of March and April 2020 and their respective markets have been significantly and adversely impacted. Beginning in May 2020, casinos began to reopen at limited capacity. As a result of the temporary closures of our casino customers, in fiscal year 2020, there was a decrease in the amount of money spent by consumers on our revenue shared installed base and the amount of daily fees of our participation EGMs and a slowdown in the expansion of existing casinos or development of new casinos. Specifically, gaming operations revenue and equipment sales decreased during the year ended December 31, 2020 as a result of the temporary closures of our casino customers. Similarly, our EGM and Table Products segment operating results have been disrupted because each segment's activities including design, development, acquisition, manufacturing, marketing, distribution, installation and servicing of its product's lines have been temporarily halted or significantly reduced. In addition, each segment's revenue from leasing, licensing and selling products was adversely impacted due to the temporary closures of our casino customers. As a result, the Company reduced expenses and capital purchases to adapt to the severity of the COVID-19 pandemic. From April to September of 2020, the Company implemented short-term furloughs with retained benefits, company-wide salary reductions, and reduced its workforce by over 10%. Our non-employee directors also agreed to reduce their fees by 50% for the first three quarters of 2020 and to take payment of the fees in stock in lieu of cash. As of December 31, 2022, all of the Company's customers have reopened; there are still some customers who have reopened at limited capacity and are operating under various restrictions.

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 that affect the cost of manufacturing and shipping of gaming equipment and parts;
- 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

On January 3, 2022, the Company acquired certain intangible assets related to the purchase of table game-related intellectual property and an installed base of table games under the Lucky Lucky trade name from Aces Up Gaming. For a detailed description of acquisitions, See Item 1. "Financial Statements" Note 16. "Acquisitions".

Results of Operations

Year Ended December 31, 2022 compared to the Year Ended December 31, 2021

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

	Year ended December 31, 2022	Year ended December 31, 2021	$ Change	% Change
Consolidated Statements of Operations:				
Revenues				
Gaming operations	$ 223,802	$ 205,627	$ 18,175	8.8%
Equipment sales	85,634	54,069	31,565	58.4%
Total revenues	309,436	259,696	49,740	19.2%
Operating expenses				
Cost of gaming operations	42,200	38,945	3,255	8.4%
Cost of equipment sales	44,472	24,262	20,210	83.3%
Selling, general and administrative	67,728	63,749	3,979	6.2%
Research and development	39,628	36,308	3,320	9.1%
Write-downs and other charges	1,923	2,791	(868)	(31.1)%
Depreciation and amortization	75,516	73,938	1,578	2.1%
Total operating expenses	271,467	239,993	31,474	13.1%
Income (loss) from operations	37,969	19,703	18,266	92.7%
Other expense (income)				
Interest expense	40,608	44,352	(3,744)	(8.4)%
Interest income	(1,059)	(1,064)	5	(0.5)%
Loss on extinguishment and modification of debt	8,549	-	8,549	100.0%
Other expense	131	1,185	(1,054)	(88.9)%
Loss before income taxes	(10,260)	(24,770)	14,510	(58.6)%
Income tax benefit	2,225	2,198	27	1.2%
Net loss	$ (8,035)	$ (22,572)	$ 14,537	(64.4)%

Revenues

Gaming Operations. Gaming operations revenue increased primarily due to an increase in our EGM segment. EGM RPD increased 11.7% compared to the prior year from $21.72 per day to $24.27 per day. The increase in gaming operations revenue is also attributable to an increase in our domestic EGM installed base year over year, offset by a decrease in our international EGM installed base primarily due to removal of machines in our installed based that had been inactive since the COVID-19 pandemic closures as well as due to some casino closures and the imposition of new gaming taxes in one Mexican state that compelled casino operators to remove units. The international installed base also decreased due to our strategic decision to wind down our modest Philippines operation given the ongoing COVID-19-related challenges facing the market. The increase in gaming operations revenue is also attributable to a $3.0 million increase in Table Products revenue related to an increase in our installed base as well as to our acquisition of Lucky Lucky.

Equipment Sales. The increase in equipment sales was primarily due to an increase of 1,639 EGMs sold year over year. We sold 4,019 EGM units for the year ended December 31, 2022, compared to 2,380 EGM units in the prior year period. EGM equipment sales revenue also includes revenue from the sale of 429 previously leased, lower yielding units to a distributor in the prior year period, which are not included in our sold unit count or domestic average sales price.

Operating Expenses

Cost of Gaming Operations. The increase in the cost of gaming operations was primarily the result of increased field service and support costs of $2.5 million as well as direct expenses and related costs compared to the prior year period due to increased activity and supply chain logistics costs. As a percentage of gaming operations revenue, costs of gaming operations was 18.9% for the both years ended December 31, 2022 and December 31, 2021.

Cost of Equipment Sales. The increase in cost of equipment sales is attributable to the increase in the number of units sold compared to the prior period. We sold 4,019 EGM units during the year ended December 31, 2022, compared to 2,380 EGM units in the prior year period. The cost of equipment sales includes the cost of 429 previously leased, lower yielding units sold to a distributor in the prior year period. As a percentage of equipment sales revenue, costs of equipment sales was 51.9% for the year ended December 31, 2022 compared to 44.9% for the prior year period, which fluctuated year over year primarily due to the difference in the cost of previously leased units sold in the prior year period, which had a lower net book value than our average new EGM units as well as increased product costs, which are the result of increased freight and increased cost of component parts used in the assembly of our products.

Selling, General and Administrative. The increase in selling, general and administrative expenses is primarily due to a $2.4 million increase in salaries and benefits, offset by a $3.1 million decrease in non-cash stock-based compensation. The remaining increase is primarily attributable to operational and support cost to maintain our current operations and our increased number of personnel.

Research and Development. The increase in research and development expense is primarily due to a $1.3 million increase in salaries and benefits. The increase in research and development expense is also attributable to a $1.2 million increase in consulting fees and outside services costs. The remaining increase is primarily attributable to operational and support costs to support our growing research and development resources.

Write-downs and Other Charges. During the year ended December 31, 2022, the Company recognized $1.9 million in write-downs and other charges primarily related to a fair value adjustment to contingent consideration of $1.5 million, most of which related to prior period immaterial accounting misstatements. The adjustment was recorded in other long-term liabilities and had no effect on the condensed consolidated statement of cash flows. The Company used level 3 fair value measurements based on projected cash flows. The contingent consideration was originally recorded in a business acquisition of table game product in 2017 and is payable periodically based on a percentage of product revenue earned on the purchased table games.

During the year ended December 31, 2021, the Company recognized $2.8 million in write-downs and charges, $1.4 million of which is primarily related to the full impairment of long-lived assets related to a discontinued product line (the Company used level 3 fair value inputs based on projected cash flows), $0.8 million of which is primarily related to the full impairment of internally developed gaming titles, as it was determined by management that the gaming titles would no longer be used (the Company used level 3 fair value inputs based on projected cash flows), and $0.6 million of which is primarily related to the disposal of long-lived assets.

Depreciation and Amortization. The increase was predominantly due to an increase in depreciation expense of $1.5 million driven by purchases of property and equipment.

Other Expense (Income), net

Interest Expense. The decrease in interest expense is predominantly attributable to entering into the Amended Credit Agreement, which decreased the amount outstanding on the term loan borrowing facility, offset by an increase in our effective interest rate in the current year. See Item 1. "Financial Statements" Note 5. "Long-Term Debt" for a detailed discussion regarding long-term debt.

Loss on extinguishment and modification of debt. On February 15, 2022, in connection with entering into the Amended Credit Agreement, $8.5 million in loan costs including third-party costs and make-whole premium were expensed and included in the loss on extinguishment and modification of debt.

Other Expense (Income) The decrease is predominantly attributed to the prior year write-off of indemnification receivables of $0.8 million 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 11. "Income Taxes" for a detailed discussion regarding the write-off of indemnification receivables. To a lesser extent, the decrease is offset 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, 2022, was a benefit of 21.7%. The difference between the federal statutory rate of 21.0% and the Company’s effective tax rate for the year ended December 31, 2022, was primarily due to changes in our valuation allowance on deferred tax assets, various permanent items and lapse in the applicable statute of limitations for certain uncertain tax positions.

The Company’s effective income tax rate for the year ended December 31, 2021, was a benefit of 8.9%. The difference between the federal statutory rate of 21.0% and the Company’s effective tax rate for the year ended December 31, 2021, was primarily due to changes in our valuation allowance on deferred tax assets, various permanent items 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. "Description of the Business and Summary of Significant Accounting Policies" 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 measures provide 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, public offering costs, legal and litigation expenses including settlement payments, new jurisdictions and regulatory licensing costs, non-cash charges on capitalized installation and delivery, non-cash charges and loss on disposition of assets and other adjustments that include costs and inventory and receivable valuation charges associated with the COVID-19 pandemic. 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 supplementally.

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, 2022 compared to the Year Ended December 31, 2021

(amounts in thousands except unit data)	Year Ended December 31, 2022	Year Ended December 31, 2021	$ Change	% Change
EGM segment revenues:				
Gaming operations	$ 199,274	$ 184,050	$ 15,224	8.3%
Equipment sales	85,057	53,759	31,298	58.2%
Total EGM revenues	$ 284,331	$ 237,809	$ 46,522	19.6%
EGM segment expenses and adjusted expenses:				
Cost of gaming operations(1)	$ 39,078	$ 36,165	$ 2,913	8.1%
Less: Adjustments(2)	2,785	2,956	(171)	(5.8)%
Adjusted cost of gaming operations	36,293	33,209	3,084	9.3%
Cost of equipment sales	44,301	24,168	20,133	83.3%
Selling, general and administrative	61,554	58,436	3,118	5.3%
Less: Adjustments(3)	10,084	13,428	(3,344)	(24.9)%
Adjusted cost of selling, general and administrative	51,470	45,008	6,462	14.4%
Research and development	34,116	31,553	2,563	8.1%
Less: Adjustments(4)	3,006	2,430	576	23.7%
Adjusted cost of research and development	31,110	29,123	1,987	6.8%
Accretion of placement fees	6,345	6,516	(171)	(2.6)%
EGM Adjusted EBITDA	$ 127,502	$ 112,817	$ 14,685	13.0%
EGM Business Segment Key Performance Indicators ("KPI's"):				
EGM gaming operations:				
EGM installed base:				
Class II	11,251	11,256	(5)	(0.0)%
Class III	5,075	4,683	392	8.4%
Domestic installed base, end of period	16,326	15,939	387	2.4%
International installed base, end of period	6,244	7,643	(1,399)	(18.3)%
Total installed base, end of period	22,570	23,582	(1,012)	(4.3)%
EGM revenue per day ("RPD"):				
Domestic revenue per day	$ 31.48	$ 30.35	$ 1.13	3.7%
International revenue per day	$ 6.92	$ 4.52	$ 2.40	53.1%
Total revenue per day	$ 24.27	$ 21.72	$ 2.55	11.7%
EGM equipment sales				
EGM units sold	4,019	2,380	1,639	68.9%
Average sales price ("ASP")	$ 19,372	$ 18,369	$ 1,003	5.5%

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

Gaming Operations Revenue

Gaming operations revenue increased primarily due to an increase in our EGM segment. EGM RPD increased 11.7% compared to the prior year from $21.72 per day to $24.27 per day. The increase in gaming operations revenue is also attributable to an increase in our domestic EGM installed base year over year, offset by a decrease in our international EGM installed base primarily due to removal of machines in our installed based that had been inactive since the COVID-19 pandemic closures as well as due to some casino closures and the imposition of new gaming taxes in one Mexican state that compelled casino operators to remove units. The international installed base also decreased due to our strategic decision to wind down our modest Philippines operation given the ongoing COVID-related challenges facing the market.

Equipment Sales

The increase in equipment sales was primarily due to an increase of 1,639 EGMs sold year over year. We sold 4,019 EGM units for the year ended December 31, 2022, compared to 2,380 EGM units in the prior year period. EGM equipment sales revenue also includes revenue from the sale of 429 previously leased, lower yielding units to a distributor in the prior year period, which are not included in our sold unit count or domestic average sales price.

EGM Adjusted EBITDA

EGM Adjusted EBITDA includes 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 13. "Operating Segments" for further explanation of adjustments. The increase in EGM Adjusted EBITDA is attributable to the increase in revenue described above, offset by the related increase in cost of gaming operations, cost of equipment sales, as well as operating expenses. EGM Adjusted EBITDA margin was 44.8% for the year ended December 31, 2022 compared to 47.4% for the year ended December 31, 2021.

Table Products

Year Ended December 31, 2022 compared to Year Ended December 31, 2021

	Year Ended December 31,		$	%
(amounts in thousands except unit data)	**2022**	**2021**	**Change**	**Change**
Table Products segment revenues:				
Gaming operations	$ 14,343	$ 11,569	$ 2,774	24.0%
Equipment sales	577	310	267	86.1%
Total Table Products revenues	$ 14,920	$ 11,879	$ 3,041	25.6%
Table Products segment expenses and adjusted expenses:				
Cost of gaming operations(1)	$ 1,321	$ 687	$ 634	92.3%
Less: Adjustments(2)	363	321	42	13.1%
Adjusted cost of gaming operations	958	366	592	161.7%
Cost of equipment sales	171	94	77	81.9%
Selling, general and administrative	3,326	2,879	447	15.5%
Less: Adjustments(3)	272	257	15	5.8%
Adjusted cost of selling, general and administrative	3,054	2,622	432	16.5%
Research and development	2,030	2,410	(380)	(15.8)%
Less: Adjustments(4)	74	51	23	45.1%
Adjusted cost of research and development	1,956	2,359	(403)	(17.1)%
Table Products Adjusted EBITDA	$ 8,781	$ 6,438	$ 2,343	36.4%
Table Products unit information:				
Table products installed base, end of period (5)	5,051	3,801	1,250	32.9%
Average monthly lease price (5)	$ 243	$ 258	$ (15)	(5.8)%

(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, and other adjustments.
(4) Adjustments to research and development costs include non-cash stock compensation expense.
(5) As a result of a comprehensive review of our unit counts, the Table Products installed base and average monthly lease price have been revised in the prior period to reflect a more accurate count of the products on lease. The review resulted in no changes to revenues or Adjusted EBITDA

Gaming Operations Revenue

The increase in Table Products gaming operations revenue is attributable to an increase in the Table Products installed base. The continuing success of our progressives such as Bonus Spin Xtreme and Royal 9, as well as the Lucky Lucky acquisition (for a detailed description of acquisitions, See Item 1. "Financial Statements" Note 16. "Acquisitions"), are the primary drivers of the increase in the Table Products installed base compared to the prior year period.

Equipment Sales

The increase in equipment sales is primarily due to an increase in the sale of shufflers in the current period, in which we sold our first *Pax S* single-deck shufflers.

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 13. "Operating Segments" for further explanation of adjustments. The increase in Table Products Adjusted EBITDA is attributable to the increases in gaming operations revenue, partially offset by an increase in cost of gaming operations.

Interactive

Year Ended December 31, 2022 compared to Year Ended December 31, 2021

	Year Ended December 31,		$	%
(amounts in thousands)	2022	2021	Change	Change
Interactive segment revenue:				
Gaming Operations	$ 10,185	$ 10,008	177	1.8%
Total Interactive revenue	$ 10,185	$ 10,008	177	1.8%
Interactive segment expenses and adjusted expenses:				
Cost of gaming operations(1)	$ 1,801	$ 2,093	$ (292)	(14.0)%
Selling, general and administrative	2,848	2,434	414	17.0%
Less: Adjustments(2)	258	157	101	64.3%
Adjusted cost of selling, general and administrative	2,590	2,277	313	13.7%
Research and development	3,482	2,345	1,137	48.5%
Less: Adjustments(3)	48	39	9	23.1%
Adjusted cost of research and development	3,434	2,306	1,128	48.9%
Interactive Adjusted EBITDA	$ 2,360	$ 3,332	(972)	(29.2)%

(1) Exclusive of depreciation and amortization.
(2) Adjustments to selling, general and administrative expense include non-cash stock compensation expense, 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.

Total Interactive Revenue

The increase in gaming operations revenue is primarily attributable to an increase in RMG revenues from Canadian and the US-based operators, offset by decreased revenue from international customers and our social casino revenues due to our decision to strategically refocus our resources on growth opportunities within the regulated North American RMG market.

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 13. "Operating Segments" for further explanation of adjustments. The decrease in Interactive Adjusted EBITDA is primarily attributable to increased operating expenses and offset by an increase in revenues as described above.

TOTAL ADJUSTED EBITDA RECONCILIATION TO NET LOSS

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 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, 2022 compared to the Year Ended December 31, 2021

	Year Ended December 31,		$	%
	2022	2021	Change	Change
Net loss	$ (8,035)	$ (22,572)	14,537	(64.4)%
Income tax benefit	(2,225)	(2,198)	(27)	1.2%
Depreciation and amortization	75,516	73,938	1,578	2.1%
Interest expense, net of interest income and other	39,680	44,473	(4,793)	(10.8)%
Loss on extinguishment and modification of debt(1)	8,549	—	8,549	100.0%
Write-downs and other(2)	1,923	2,791	(868)	(31.1)%
Other adjustments(3)	2,225	3,119	(894)	(28.7)%
Other non-cash charges(4)	9,117	8,393	724	8.6%
Non-cash stock-based compensation(5)	11,893	14,643	(2,750)	(18.8)%
Total Adjusted EBITDA	$ 138,643	$ 122,587	16,056	13.1%

(1) 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.
(2) Write-downs and other include items related to loss on disposal or impairment of long-lived assets and fair value adjustments to contingent consideration.
(3) Other adjustments are primarily composed of the following:

- Costs and inventory and receivable valuation charges associated with the COVID-19 pandemic, professional fees incurred for projects, costs incurred related to public offerings, contract cancellation fees and other transaction costs deemed to be non-operating in nature;
- Acquisition and integration-related costs related to the purchase of businesses and to integrate operations and obtain costs synergies;
- Restructuring and severance costs, which 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; and
- Legal and litigation related costs, which consist of payments to law firms and settlements for matters that are outside the normal course of business.

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

Contractual Obligations

As of December 31, 2022, the Company is contractually obligated to make future cash payments related to our long-term debt, operating lease liability, placement fees payable, and other miscellaneous obligations.

For a description of contractual obligations related to long-term debt that include mandatory quarterly principal and interest payments, see Item 15. “Exhibits and Financial Statement Schedules” Note 5. "Long-Term Debt".

For a description of contractual obligations related to our operating lease liability, see Item 15. “Exhibits and Financial Statement Schedules” Note 14. "Leases".

As of December 31, 2022, we have a total contractual obligation to make future cash payments for placement fees of $15.8 million, $6.3 million of which is due in the next twelve months, and the remaining balance of $9.5 million is due thereafter until the end of the contractually required payments in 2025.

Based on the cash and cash equivalents on hand as of December 31, 2022, our expected cash flows from operating activities, as well as availability in our undrawn revolving credit facility, management believes that the Company has sufficient liquidity to fund its operating requirements and meet its obligations as they become due for at least the next twelve months after the financial statements are issued.

Indebtedness

First Lien Credit Facilities

For a detailed description of indebtedness, see Item 1. "Financial Statements" Note 5. "Long-Term Debt".

As of December 31, 2022, there were no required financial covenants for our debt instruments.

Finance Leases

The Company has entered into leases for vehicles that are accounted for as finance leases, as described in Item 15. “Exhibits and Financial Statement Schedules” Note 5. "Long-Term Debt".

Liquidity and Capital Resources

We expect that primary ongoing liquidity requirements for the next twelve months after the financial statements are issued will be for operating capital expenditures, working capital, debt servicing, game development and other customer acquisition activities. We expect to finance these liquidity requirements through a combination of cash on hand, additional financing, and cash flows from operating 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, 2022, the Company had $37.9 million in cash and cash equivalents and $40.0 million available to draw under its revolving credit facility. As of December 31, 2022, management believes that the Company has sufficient liquidity to fund its operating requirements and meet its obligations as they become due for at least the next twelve months after the financial statements are issued.

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

	Year ended December 31,		$
	2022	2021	Change
Cash Flow Information:			
Net cash provided by operating activities	$ 77,709	$ 78,332	(623)
Net cash (used in) investing activities	(72,088)	(50,137)	(21,951)
Net cash (used in) provided by financing activities	(62,720)	(14,905)	(47,815)
Effect of exchange rates on cash and cash equivalents	13	(2)	15
(Decrease) increase in cash and cash equivalents	$ (57,086)	$ 13,288	(70,374)

Operating activities

The decrease in cash provided by operating activities is attributable to a $13.1 million increase in the use of cash related for assets and liabilities that relate to operations, which primarily is due to a $7.8 million increase in the use of cash to purchase inventory. The decrease in cash provided by operating activities is offset by an improvement in our net loss adjusted for non-cash expenses that increased by $12.5 million.

Investing activities

The increase in cash used in investing activities was primarily due to a $12.0 million increase in purchases of property plant and equipment and a $5.7 million increase in software development expenditures. Cash used in investing activities also increased due to an increase in cash used in business acquisitions of $4.8 million as described in Item 1. “Financial Statements” Note 16. “Acquisitions”.

Financing activities

The increase in cash used in financing activities of $47.8 million is primarily attributable to the reduction of debt principal and payment of related debt issuance costs in conjunction with our entering into The Credit Agreement as described in Item 1. “Financial Statements” Note 5. "Long-Term Debt".

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. "Description of the 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"* (ASC 805), in the accounting for business acquisitions. 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 related to acquisitions include significant estimates in the valuation of intangible assets that include 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 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

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 "*Revenue from contracts with customers*" (ASC 606) including equipment sales in our EGM and, to a lesser extent, in our Table Products segments. Revenue earned in our Interactive segment is recorded in gaming operations revenue. Refer to Item 15. "Exhibits and Financial Statement Schedules" Note 1. "Description of the Business and Summary of Significant Accounting Policies", which contains a detailed 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 also 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.

Definite-lived Asset Impairment

The Company reviews its definite-lived 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 asset.

When the estimated undiscounted cash flows (Assumption #1) 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. We also make judgments about the remaining useful lives of intangible assets and other long-lived assets that have finite lives (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: When we identify a triggering event, we estimate cash flows directly associated with the use of the asset to test recoverability and remaining useful lives based upon forecasted 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 #1: 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 long-lived assets. If actual cash flows fall below initial forecasts, we may need to record additional amortization and/or impairment charges.

Assumptions/Approach used for Assumption #2: 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 #2: While we believe the useful lives that we use are reasonable, different assumptions could materially affect the carrying value of long-lived assets, as well as the depreciation and amortization expense.

Goodwill and Indefinite-lived Intangible Asset Impairment

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. 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 indefinite-lived assets or goodwill, but instead test for possible impairment at least 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 asset'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 each reporting unit and the Company as a whole. If the Company determines the asset is not at risk of failing the qualitative assessment no quantitative 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 quantitative impairment test, and depending upon the results of that measurement, the recorded asset value 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 impairment test, we estimate the fair value of our goodwill at the reporting unit level and indefinite-lived assets 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 asset'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 tests for possible impairment of indefinite lived intangible assets at least annually, on October 1. The Company performed a qualitative assessment as of October 1, 2022 on the EGM and Table Products reporting units as well as the AGS tradename and determined that it was not more likely than not that the fair value of the EGM and Table Products reporting units and AGS tradename were less than their carrying amounts as of the assessment date of October 1, 2022. In this 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 was over carrying value for the EGM and Table Products reporting units were $113.4 million and $8.9 million, respectively and the AGS tradename excess fair value over carrying value was $85.0 million. There is no balance of goodwill in the Company's other reporting unit.

The Company performed a quantitative assessment as of October 1, 2020 on the EGM and Table Products reporting units, in which both reporting units passed the assessment with 17% and 32% cushion between the fair value and carrying value of the reporting unit, respectively. As of October 1, 2020, none of the Company's remaining reporting units had a recorded balance of goodwill. The discount rates utilized in the discounted cash flow projections were 12.0% and 15.5% for the EGM and Table Products reporting units, respectively. During the first quarter of 2020, our EGM and Table Products reporting units' operating results were significantly lower than expectations, driven by the rapid nationwide spread of the coronavirus and the actions taken by state and tribal governments and businesses, including the closure of casinos, in an attempt to contain the virus. Many of our customers temporarily closed their operations and the markets that we served were significantly and adversely impacted, which was considered to be a triggering event. These closures resulted in a reduction of gaming operations revenues particularly related to our leased EGMs and Table Products as we ceased to bill our customers from the date that they closed. The closures also impacted equipment sales revenue due to a decline in our customer demand to purchase our EGMs and other products during the closures. Accordingly, we performed a quantitative assessment, or "Step 1" analysis, as of March 31, 2020 to analyze whether this triggering event resulted in an impairment of associated goodwill in those two reporting units. As of March 31, 2020, none of the Company's remaining reporting units had a recorded balance of goodwill. Based on our quantitative analysis, the fair value was 34% greater than the carrying value for the EGM reporting unit and 21% greater for the Table Products reporting unit. We estimated the fair value of both reporting units using the discounted cash flow method. The most significant factor in the assessment was the projected cash flows adjusted for the estimated adverse impact of the COVID-19 pandemic on the Company's operations. Our projected cash flows were dependent on our assumptions for when our casino customers would have reopened. The projected cash flows and those for future years were also impacted by our estimate of when the operations of our casino customers would return to pre-COVID-19 levels. Given the impacts of the COVID-19 pandemic across our business, the long-range cash flow projections that were used to assess the fair value of our businesses and assets for purposes of impairment testing were subject to greater uncertainty than normal. Other factors included in the discounted cash flow calculation were the discount rate of 10% for EGM and 14% for Table Products and the long-term growth rate of 3% for both reporting units. During the second and third quarters of 2020, based on the performance of our re-opened customers and our related revenue share including our projections for future periods, we concluded that there were no triggering events that would more likely than not reduce the fair value of a reporting unit below their carrying value.

Income Taxes

We conduct business globally and are subject to income taxes in United States 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. "Description of the Business and 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. "Description of the Business and Summary of Significant Accounting Policies".

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, 2022, 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 by $5.7 million, while a hypothetical 1% increase in interest rates would increase interest expense by $5.7 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 6% 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, 2022. 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.

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 GAAP.

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, 2022, 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.

Changes in Internal Controls

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, 2022 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.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

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 9, 2023.

AGS LLC

Name	Age	Position
David Lopez	49	Chief Executive Officer
Kimo Akiona	49	Chief Financial Officer
Victor Gallo	56	General Counsel
Rob Ziems (1)	52	Chief Legal Officer

PlayAGS, Inc.

Name	Age	Position
David Lopez	49	Chief Executive Officer, President and Director
Kimo Akiona	49	Chief Financial Officer, Chief Accounting Officer and Treasurer
Victor Gallo	56	General Counsel and Secretary
Yvette E. Landau	66	Director
Adam Chibib	56	Director and Chairman
Geoff Freeman	48	Director
Anna Massion	44	Director
David Farahi	41	Director

(1) - Mr. Ziems joined AGS LLC as Chief Legal Officer in January 2023 and most of Mr. Gallo's responsibilities are transitioning to Mr. Ziems in the next several months.

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 was appointed as the Chief Executive Officer of AGS and Chief Executive Officer and President of the Company prior to the Company's IPO. 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 currently serves as an independent director of ecoATM. 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, Chief Accounting Officer and Treasurer of the Company. Mr. Akiona was appointed to serve as Treasurer and Chief Financial Officer of the Company prior to the Company's IPO. Prior to that, 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 the University of Nevada, Las Vegas with a B.S. in Business Administration with a Concentration in Accounting.

Victor Gallo*.* Mr. Gallo joined the Company prior to the Company's IPO as Vice President, Licensing and Compliance and Compliance Officer and currently serves as the Company’s General Counsel and Secretary. 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 has been practicing law for over 25 years and is a member of the California Bar, the Nevada Bar (In-House counsel) and is registered to practice before the United States Patent and Trademark Office as a Patent Attorney. 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.

Rob Ziems*.* Mr. Ziems joined the Company as Chief Legal Officer in January 2023. Previously, Previously, Mr. Ziems served in various roles at Aruze Gaming America, Inc. and Aruze Gaming Group ("Aruze") including President, Global Chief Legal Officer, and Corporate Secretary. Prior to that, he served as Executive Vice President, General Counsel and Corporate Secretary of Mikohn Gaming (later known as Progressive Gaming International Corporation ("PGIC")) and he began in the gaming industry as Associate General Counsel at Station Casino, Inc. and later joined Aristocrat Technologies, Inc. as Associate General Counsel. Mr. Ziems earned his law degree from Drake University School of Law, his Master of Business Administration from Indiana University, and his Bachelor of Science from the University of South Florida.

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 and was also recently appointed as the Lead Independent Director. In January 2023, Mr. Chibib was appointed as chairman of the board. Mr. Chibib's thirty plus year career has included executive roles at numerous successful companies ranging from early-stage start-ups to billion-dollar public companies and has spanned numerous industries including telecom software, security hardware, consumer financial services and gaming. Mr. Chibib is currently the CFO of Self Financial, a consumer financial company based in Austin, Texas. Prior to Self Financial, Mr. Chibib was a general partner at Silverton Partners, an early stage venture capital firm. Mr. Chibib also served as 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 Miscrosystems), CFO of TippingPoint Technologies (acquired by 3Com), CFO of NetSpend and as the Worldwide Controller of Tivoli Systems. Mr. Chibib currently holds several board seats and is the Treasurer for the Austin Film Society and serves on the Nominating Committee for the Eanes Education Foundation. Mr. Chibib 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. Mr. Freeman is currently the CEO of the Consumer Brands 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; instrumental in overturning the Professional and Amateur Sports Protection Act of 1992 (PASPA), which led to legalized sports betting in the U.S.; significantly improving 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 the AGA, Mr. Freeman was the COO of The U.S. Travel Association from May 2006 to May 2013, and 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. Ms. Massion currently serves as an Independent Non-Executive Director at Playtech, PLC, BetMakers Technology Group LTD, Artemis Strategic Investment Corp, and Gaming Realms 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.

David Farahi. On July 11, 2022, Mr. Farahi was appointed as a member of the board of the Company. Mr. Farahi currently serves as Executive Chairman of Quick Custom Intelligence, a SaaS business which provides a suite of advanced business intelligence and operational tools to the casino and hospitality industries across 50 countries. A role he has held since May of 2022. Previously he served as Chief Operating Officer of Monarch Casino & Resort from 2012 to 2021. Starting his gaming career at Monarch in 1998, Farahi held several additional roles including Director of Investor Relations, FP&A Analyst, as well as numerous positions within the slot and gaming operations management departments. From 2004 to 2007 Mr. Farahi held various finance industry roles with HSBC Bank PLC in London, Geneva and New York. Mr. Farahi served four terms as President of the Colorado Gaming Association, from 2015 to 2021, where he spearheaded the industry's legislative agenda, including three successful state-wide ballot initiatives. In 2022 Mr. Farahi became an Adjunct Professor at Metropolitan State University Denver, teaching an introductory course on gaming and sports book management. Mr. Farahi earned an MBA from Columbia Business School with concentrations in both Real Estate and Finance. He also holds a BA in Economics and International Studies from Northwestern University. He earned Dean's List honors from both institutions.

Board Composition

The Company has six 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. 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:

- Geoff Freeman and Yvette Landau are Class I directors, whose terms expire at the fiscal 2024 annual meeting of stockholders;
- Adam Chibib and David Farahi are Class II directors, whose initial term expires at the fiscal 2025 annual meeting of stockholders; and
- Anna Massion and David Lopez are Class III directors, whose initial terms expire at the fiscal 2023 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.

As of November 17, 2022, none of (a) AP Gaming VoteCo, LLC ("VoteCo"), (b) Apollo Gaming Holdings, L.P. ("Holdings"), (c) Apollo Investment Fund VIII, L.P. (d) and 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 and VoteCo and their respective subsidiaries) to which any transfers of our common stock are made (collectively, the "Apollo Group") beneficially owns any shares of our common stock. As a result, the Apollo Group no longer holds any rights to nominate members of our board of directors.

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 6775 S. Edmond St., Ste #300, Las Vegas, NV 89118.

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.

On April 28, 2021, the board of directors reorganized its committee members and leadership structure to provide increased oversight and involvement of its independent directors. In addition to the new committee leadership and member assignments, the Company also appointed Mr. Chibib to be the lead independent director, a new role on the Board that represents the independent directors.

As of November 17, 2022, the Apollo Group no longer beneficially owns any shares of our common stock. As a result, the Apollo Group no longer holds any rights to nominate members of the committees of our board of directors.

Audit Committee

Our Audit Committee consists of Mr. Adam Chibib (Chair), Ms. Yvette Landau, Ms. Anna Massion, Mr. David Farahi and Mr. Geoff Freeman. Our board of directors has determined that Mr. Chibib, Ms. Landau, Ms. Massion, Mr. Farahi 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, Ms. Massion, Mr. Farahi 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. Yvette Landau. 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. Anna Massion (Chair), Mr. Geoff Freeman and Ms. Yvette Landau. 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 6775 S. Edmond St., Ste #300, 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.

Delinquent Section 16(a) Reports

Pursuant to Section 16(a) of the Exchange Act, the Company's directors and executive officers, and any persons holding more than 10% of its common stock, are required to report their beneficial ownership and any changes therein to the SEC and the Company. Specific due dates for those reports are established by the rules of the Securities and Exchange Commission, and the Company is required to report herein any failure to file such reports by those due dates. Based solely on a review of the copies of such reports and written representations delivered to the Company by such persons, we believe that there were no failures to comply with Section 16(a) reporting requirements by such persons during the Company's fiscal year ended December 31, 2022, except for one Form 4 that was filed late on September 30, 2022 for our General Counsel.

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.

Non-equity Incentive Plan

Employees are eligible to earn annual cash bonuses based on achievement of certain periodic corporate key performance indicators ("KPIs") and achievement of an annual Adjusted EBITDA target. 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 underperformance with respect to the performance targets, which range is set by the board of directors annually. The bonus plan is split evenly in two equal parts: periodic corporate KPIs (50%) and annual Adjusted EBITDA Target (50%). For Periodic Corporate KPIs where actual achievement is lower than 100%, partial credit will be given. Actual achievement of the Corporate KPIs is capped at 100% (the maximum).

Equity-based Compensation

The equity-based compensation grants to our named executive officers directly align their compensation with the goals and financial returns of our stockholders. We do this primarily through regular, annual grants of equity, with target values based on a percentage of each executive's base pay, which vest based on time and performance. In order for performance-based RSUs to become earned and vested, the Company's stock price must achieve a specified target level for at least 60 consecutive trading days. We believe that the grant of time-based vesting awards incentivizes our executives to remain with the Company and receive the value of their equity awards over time, while performance-based vesting awards that vest based on stock price appreciation directly align our executives' goals with the financial goals of our stockholders.

2021 Supplemental Long-Term Incentive Grants and Compensation Study

On April 30, 2021, the Compensation Committee approved a supplemental grant of long-term performance-based restricted stock units to Messrs. Lopez and Akiona according to the table below. See the section below "Important Compensation Events Occurring Subsequent to December 31, 2022" that summarizes a modification to the awards below.

Stock Price Appreciation	Target Stock Price (1)	Shares for Mr. Lopez Equity Awards	Shares for Mr. Akiona Equity Awards
50%	$ 13.43	143,266	85,960
75%	$ 15.66	214,900	128,940
100%	$ 17.90	358,166	214,900
	Total Number of Restricted Stock Units	716,332	429,800

(1) The target stock price was calculated based on the stock price appreciation from the ending stock price on April 30, 2021 of $8.95.

- 100% of the awards are performance-based and at-risk.
- The performance shares only vest if certain rigorous, pre-determined stock price hurdles are achieved and sustained for 60 consecutive trading days during the four- year term of the awards.
- The stock price must increase by 50%, 75% and 100% and be maintained in order for the three tranches of the award to be earned, respectively.

The Compensation Committee made these grants under the 2018 Omnibus Incentive Plan, as amended.

Pay for Performance and Alignment with Stockholders

We are committed to a pay for performance philosophy. Our compensation program aims to motivate our people to perform at a high level and rewards contributions that enhance our ability to deliver outstanding results for our customers and create value for our stockholders. We believe that compensation should be aligned to stockholder interests and the long-term value realized by our stockholders.

To link pay and performance and align of the interests of the executives with those of the Company and its stockholders, the Compensation Committee allocates a substantial portion of target annual total direct compensation to long-term incentive equity. In 2022, no additional grants of long-term incentive equity were given to our named executive officers; however, the named executive officers were granted such awards in January of 2023. The January 2023 grants consisted of 50% time-based vesting awards that vest equally over the following four years and 50% stock price performance based awards that vest when the Company's average stock price for 20 consecutive trading days meets a 30% increase over the price on the grant date. The number of awards given to each named executive officer was consistent with the Company's historical annual grant practices.

Benchmark Positioning Relative to Market Median

In general, the Compensation Committee seeks to align executive officer compensation with the market median range in order to be able to attract, motivate and retain experienced executive talent who are critical to our long-term success. In 2021, the Compensation Committee reviewed the value of the executives' total direct compensation, which includes base salary, non-equity incentive plans, and target annual long-term incentive equity relative to the grants made to the executives at companies in our peer group, as presented in a study prepared by the Compensation Committee's independent compensation consultant, the Rewards Solutions practice of Aon plc. The Compensation Committee's review indicated that Mr. Lopez and Mr. Akiona's total direct compensation was substantially below the market median and determined to initially grant a supplemental performance-based equity award in 2021, to begin to bring the total direct compensation in line with the market median. The study analyzed our named executive officers' total direct compensation in comparison to the compensation of executive officers in similar positions of the peer companies listed below and noted that the total direct compensation for Mr. Lopez and Mr. Akiona are both below the market median levels. Also, the mix of compensation has historically placed less weight on long-term incentives than the peer companies. In their findings, the compensation consultants noted that investors ordinarily prefer the majority of pay to be performance based.

The Compensation Committee approved the following peer group developed in consultation with its independent compensation consultant and used in the analysis. The peer group was determined using a mix of quantitative and qualitative criteria such as revenue, industry, business model, and other factors to provide a relevant list of comparators to analyze market pay levels.

- Accel Entertainment, Inc.
- Ainsworth Game Technology Limited
- Bally's Corporation
- Churchill Downs Incorporated
- Everi Holdings, Inc.
- Glu Mobile, Inc.
- Inspired Entertainment, Inc.
- Monarch Casino & Resort, Inc.
- Scientific Games Corporation
- Agilysis, Inc.
- Aristocrat Leisure Limited
- Century Casinos, Inc.
- Daktronics, Inc.
- Full House Resorts, Inc.
- Golden Entertainment, Inc.
- International Game Technology PLC
- Red Rock Resorts, Inc.
- SciPlay Corporation

In accordance with our pay for performance and stockholder alignment philosophy and in order to bring the value of target annual long-term incentive equity grants into alignment with the market median range for that component, the Committee made supplemental incentive equity grants in 2021 to Mr. Lopez and Mr. Akiona.

Stock Ownership

Our named executive officers recognize the importance of stock ownership to further strengthen the alignment of their interests with our stockholders. As such, the named executive officers have retained their vested stock awards, they have also purchased the Company's stock in market transactions, and they have elected on several occasions to receive stock in lieu of a cash from a portion of their non-equity incentive plan compensation. Their dispositions of stock have been limited to selling to cover for taxes upon the vesting of equity awards and some nominal gifts to charity.

Summary Compensation Table

The following table discloses compensation for our fiscal years ending December 31, 2022, and 2021 received by Messrs. Lopez, Gallo, and Akiona, each of whom was a "named executive officer" during Fiscal 2022.

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(4)	Total ($)
David Lopez,	2022	700,000	—	—	714,000	12,830	1,426,830
Chief Executive Officer, President and Director	2021	700,000	—	8,124,743	822,500	12,256	9,659,499
Kimo Akiona,	2022	336,500	—	—	257,423	12,830	606,753
Chief Financial Officer and Treasurer	2021	336,500	—	4,553,980	296,541	11,220	5,198,241
Victor Gallo	2022	306,000	60,000	—	279,990	18,462	664,452
General Counsel and Secretary	2021	306,000	—	587,944	287,288	33,432	1,214,664

(1) Reflects $60,000 in additional bonus compensation paid to Mr. Gallo for his oversight of our Interactive segment.

(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 10. "Stock-Based Compensation" for further explanation.

(3) Amounts represent annual incentive cash bonuses paid to employees in respect of performance for fiscal years ended December 31, 2022 and 2021. Employees are eligible to earn annual cash bonuses based on achievement of certain periodic corporate key performance indicators ("KPIs") and achievement of an annual Adjusted EBITDA target. 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 underperformance with respect to the performance targets, which range is set by the board of directors annually. The bonus plan is split evenly in two equal parts: periodic corporate KPIs (50%) and annual Adjusted EBITDA Target (50%). For Periodic Corporate KPIs where actual achievement is lower than 100%, partial credit will be given. Actual achievement of the Corporate KPIs is capped at 100% (the maximum). For the portion of the bonus related to achievement of Adjusted EBITDA, the applicable compensation Adjusted EBITDA target for 2022 was $136,004,000 and attainment for 2022 was 102% of the target, which corresponded to a payout level of 104%. In 2021 the target was $102,000,000 and attainment for such year was 121% of the target, which corresponded to a payout level of 135%.

    The periodic corporate KPIs bonus in 2022 included targets set each quarter for each operating segment of the business as well as for the research and development teams. In 2022, these goals included installation of premium products and sales orders signed for a certain number of unique customer, as well as increases to the EGM installed base and achievement of product-specific and game creation research and development milestones in the EGM segment. Additionally, for the Table Products and Interactive segments, the goals included the achievement of revenue targets, customer launches, and the completion of specific product development in each segment. Each bonus related to these corporate KPIs was paid in full for 2022. The periodic corporate KPIs bonus in 2021 included targets set each quarter for each operating segment of the business. These included the achievement of premium product unit placements and meeting EGM rate per day goals for the EGM segment, as well as revenue, Adjusted EBITDA, product commercialization, and customer launches in the Table Products and Interactive segments. The bonus related to these corporate KPIs was paid in full for 2021.

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

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, and synergies.

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,	
	2022	2021
Net loss	$ (8,035)	$ (22,572)
Income tax (benefit) expense	(2,225)	(2,198)
Depreciation and amortization	75,516	73,938
Interest expense, net of interest income and other	39,680	44,473
Loss on extinguishment and modification of debt(1)	8,549	—
Write-downs and other(2)	1,923	2,791
Other adjustments(3)	2,225	3,119
Other non-cash charges(4)	9,117	8,393
Non-cash stock compensation(5)	11,893	14,643
Adjusted EBITDA	$ 138,643	$ 122,587
Foreign currency(6)	-	-
Unbudgeted acquisition and other items(7)	-	-
Compensation Adjusted EBITDA	$ 138,643	$ 122,587

(1) 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.
(2) Write-downs and other include items related to loss on disposal or impairment of long-lived assets and fair value adjustments to contingent consideration.
(3) Other adjustments are primarily composed of the following:
- Costs and inventory and receivable valuation charges associated with the COVID-19 pandemic, professional fees incurred for projects, costs incurred related to public offerings, contract cancellation fees and other transaction costs deemed to be non-operating in nature;
- Acquisition and integration-related costs related to the purchase of businesses and to integrate operations and obtain costs synergies;
- Restructuring and severance costs, which 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; and
- Legal and litigation related costs, which consist of payments to law firms and settlements for matters that are outside the normal course of business.

(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) Non-cash stock-based compensation includes non-cash compensation expense related to grants of options, restricted stock, and other equity awards.
(6) 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.
(7) 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 determine 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.

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.

Victor Gallo

AGS entered into a new employment agreement with Victor Gallo, as executed on October 21, 2018, to continue to serve as General Counsel, Secretary and Compliance Officer of AGS, a position he has served in since February 2010. 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. Gallo's annual base salary shall be $306,000. Mr. Gallo'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. Gallo 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. Gallo 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, 2022:

	Options					Stock Awards			
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise or Base Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($) (7)**	**Number of Performance-Based Stock Units (#)**	**Market Value of Performance-Based Stock Units (7)**
David Lopez	396,350(1)	—	—	6.43	4/28/2024	218,740 (4)	1,115,574	909,435 (8)	4,638,119
Kimo Akiona	75,769(2)	—	—	9.42	3/11/2025	95,370 (5)	486,387	522,627 (9)	2,665,398
Victor Gallo	58,288(3)	—	—	6.43	8/8/2024	47,810 (6)	243,831	42,207 (10)	215,256

(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, and is fully vested. 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 75,769 options granted on March 11, 2015 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, and is fully vested. 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.

(3) Represents 58,288 options granted on August 8, 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, and is fully vested. 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.

(4) Represents 7,475 outstanding restricted stock units (pursuant to a grant of 29,902 restricted stock units on March 4, 2019); and 66,437 outstanding restricted stock units (pursuant to a grant of 132,875 restricted stock units on September 14, 2020); and 144,828 outstanding phantom stock units (pursuant to a grant of 193,104 phantom stock units on September 21, 2021). Such grants are subject to a time-based vesting schedule, with the initial awards 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 stock units 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 stock units shall be forfeited.

(5) Represents 1,796 outstanding restricted stock units (pursuant to a grant of 7,187 restricted stock units on March 4, 2019); and 23,953 outstanding restricted stock units (pursuant to a grant of 47,906 restricted stock units on September 14, 2020); and 69,621 outstanding phantom stock units (pursuant to a grant of 92,828 phantom stock units on September 21, 2021). Such grants are subject to a time-based vesting schedule, with the initial awards 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 stock units 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 stock units shall be forfeited.

(6) Represents 1,634 restricted stock units (pursuant to a grant of 6,536 restricted stock units on March 4, 2019); 14,521 restricted stock units (pursuant to a grant of 29,043 restricted stock units on September 14, 2020); 31,655 phantom stock units (pursuant to a grant of 42,207 phantom stock units on September 21, 2021). Such grants are subject to a time-based vesting schedule, with the initial awards 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 stock units 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 stock units shall be forfeited.

(7) For purposes of this table, the shares of common stock of the Company were valued using the closing stock price on December 31, 2022 of $5.10.

(8) Represents 143,266 outstanding performance-based restricted stock units (pursuant to a grant of 143,266 performance-based restricted stock units on April 30, 2021) that vest on the first day the average closing price per share for the prior 60 consecutive trading days exceeds $13.43; represents 214,900 outstanding performance-based restricted stock units (pursuant to a grant of 214,900 performance-based restricted stock units on April 30, 2021) that vest on the first day the average closing price per share for the prior 60 consecutive trading days exceeds $15.66; represents 358,166 outstanding performance-based restricted stock units (pursuant to a grant of 358,166 performance-based restricted stock units on April 30, 2021) that vest on the first day the average closing price per share for the prior 60 consecutive trading days exceeds $17.90. Represents 193,103 phantom stock units (pursuant to a grant of phantom stock units on September 21, 2021) that vest on the first day that the average closing price per share of the company's common stock for the prior 60 consecutive trading days exceeds $9.06. All of the performance-based restricted stock units and phantom stock units will be forfeited if the performance target is not achieved within four years of the grant date.

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.

(9) Represents 85,960 outstanding performance-based restricted stock units (pursuant to a grant of 85,960 performance-based restricted stock units on April 30, 2021) that vest on the first day the average closing price per share for the prior 60 consecutive trading days exceeds $13.43; represents 128,940 outstanding performance-based restricted stock units (pursuant to a grant of 128,940 performance-based restricted stock units on April 30, 2021) that vest on the first day the average closing price per share for the prior 60 consecutive trading days exceeds $15.66; represents 214,900 outstanding performance-based restricted stock units (pursuant to a grant of 214,900 performance-based restricted stock units on April 30, 2021) that vest on the first day the average closing price per share for the prior 60 consecutive trading days exceeds $17.90. Represents 92,827 phantom stock units (pursuant to a grant of 92,927 phantom stock units on September 21, 2021) that vest on the first day that the average closing price per share of the company's common stock for the prior 60 consecutive trading days exceeds $9.06. All of the performance-based restricted stock units and phantom stock units will be forfeited if the performance target is not achieved within four years of the grant date.

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.

(10) Represents 42,207 phantom stock units (pursuant to a grant of 42,207 phantom stock units on September 21, 2021) that vest on the first day that the average closing price per share of the company's common stock for the prior 60 consecutive trading days exceeds $9.06, but only if such achievement occurs prior to September 21, 2025.

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.

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. 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.

Pursuant to Mr. Gallo's employment agreement, if during the term of the agreement AGS terminates Mr. Gallo's employment without cause or he resigns for good reason, subject to receiving a signed release of claims from Mr. Gallo, Mr. Gallo 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. Gallo is terminated. Pursuant to his employment agreement, Mr. Gallo 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, Akiona, and Gallo 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.

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 Messrs. Akiona and Gallo, "Good Reason" means a material diminution of duties, title, reporting structure, or base salary; provided that, Messrs. Akiona and Gallo may not terminate employment for "Good Reason" unless Messrs. Akiona and Gallo provide written notice to AGS within 90 days after Messrs. Akiona and Gallo 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, 2022."

Important Compensation Events Occurring Subsequent to December 31, 2022

On March 6, 2023, the Company entered into amended and restated agreements with Messrs. Lopez and Akiona. The amended and restated agreements provide for the following severance benefits upon a termination without "cause" or resignation for "good reason," subject to execution of a release of claims: (i) cash payment equal to two times the sum of the executive's base salary and annual target bonus, payable in installments over a 24-month period (the "Severance Period"), (ii) continued health coverage for the duration of the Severance Period and (iii) prorated annual bonus for the year of termination based on actual performance. In addition, upon a change in control, all of their outstanding, unvested equity awards will accelerate and vest. In addition, Mr. Lopez' annual base salary will increase from $700,000 to $735,000. Mr. Akiona's annual base salary will increase from $336,500 to $370,000 and Mr. Akiona's annual target bonus percentage will increase from 75% to 100% of his annual base salary.

On March 7, 2023, the Company also entered into a transition agreement with Mr. Gallo in anticipation of his retirement from the Company on July 31, 2023. Pursuant to the transition agreement, for the duration of Mr. Gallo's employment through his retirement on July 31, 2023, he will be eligible to receive a base salary of $306,000 per annum and a target bonus opportunity of 75% of his base salary. Additionally, he will continue to be eligible for equity awards in connection with the Company's annual equity award grant cycle. Following Mr. Gallo's retirement, or upon an earlier termination by the Company without "cause" or resignation for "good reason," subject to his execution of a release of claims, he will receive the following severance benefits: (i) cash amount equal to one-and-a-half times the sum of (x) his base salary and (y) target annual bonus, payable in substantially equal monthly installments over an 18-month period, (ii) continued health and welfare benefits for 18 months, (iii) prorated annual bonus for the year of termination based on actual performance and (iv) acceleration and vesting of 100% of his then-outstanding and unvested equity awards (unless he continues service as a non-employee director of the Board, in which case, such equity will continue to vest during such service and will accelerate upon the cessation of his service from the Board). In the event of a change in control prior to Mr. Gallo's termination of employment (or cessation from his service on the Board, if applicable), all of his outstanding, unvested equity awards will accelerate and vest.

If Mr. Gallo continues to serve as a non-employee director of the Board following his termination of employment, he will be eligible to receive cash fees in respect of his service on the Board, but only following the completion of payment of any severance benefits payable to him, and he will be eligible to receive equity awards consistent with the Company's equity grant practices for its members of the Board.

In addition, on March 6, 2023, the Board approved an amendment to certain performance based restricted stock units granted to Messrs. Lopez and Akiona, on April 30, 2021. Such awards were previously subject to achievement of performance criteria as described above in "—Outstanding equity awards as of the year ended December 31, 2022") (the "2021 Performance Awards"). Based on current market conditions, the Board determined that the amended awards will provide the right level of incentive and achievability to the executives. The amended awards also align with the compensation conultant's recommendations and the market median of our peer companies. Such amendment provides that the 2021 Performance Awards will instead be eligible to vest 50% based solely on continued service (the "Service-Vesting Tranche") and 50% based on performance and continued service (the "Performance-Vesting Tranche"). The Service-Vesting Tranche will vest on an annual basis over four years. The Performance-Vesting Tranche will generally vest as follows, subject to continued service during such period: if the average closing price per share of the Company's common stock for the prior 20 consecutive days is at least (i) $8.36, then 25% will vest, (ii) $10.04, then 50% will vest, (iii) $11.71, then 75% will vest, and (iv) $13.38, then 100% will vest. The amendment is a result of our commitment to a pay for performance philosophy where our compensation program aims to motivate our executives to perform at a high level and rewards contributions that enhance our ability to deliver outstanding results for our customers and create value for our stockholders. We believe that compensation should be aligned to stockholder interests and the long-term value realized by our stockholders.

Director Compensation

The following table sets forth the total compensation paid to each of our non-employee directors for the year ended December 31, 2022.

Name (1)	Fees Earned or Paid in Cash ($)(2)	Stock Awards ($) (3)	Total ($)
Adam Chibib	100,000	75,000	175,000
Yvette Landau	75,000	75,000	150,000
Geoff Freeman	75,000	75,000	150,000

Anna Massion	75,000	75,000	150,000
David Farahi	56,250	75,000	131,250

(1)During the year ended December 31, 2022, 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. Mr. Sambur and Mr. Cohen resigned from the board on November 17, 2022 following the completion of the sale of all of Apollo Group's investment in the Company.

(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 2022, each director’s award consisted of restricted stock units 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 6775 S. Edmond St., Ste #300, Las Vegas, NV 89118.

	Shares Beneficially Owned	
	Number	Percent
5% Stockholders		
ArrowMark Colorado Holdings, LLC	3,161,217	8.1%
HG Vora Capital Management, LLC	3,500,000	9.0%
Named Executive Officers and Directors		
David Lopez(1)	722,698	1.9%
Kimo Akiona(2)	217,677	0.6%
Victor Gallo(3)	173,763	0.4%
Adam Chibib	38,122	0.1%
Yvette Landau	40,691	0.1%
Geoff Freeman	31,261	0.1%
Anna Massion	34,036	0.1%
David Farahi	11,000	0.0%
All current directors and executive officers as a group (8 persons)	1,269,248	3.3%

(1)Number of shares beneficially owned includes 396,350 shares of common stock issuable upon the exercise of options within 60 days and 50,640 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.

(2)Number of shares beneficially owned includes 75,769 shares of common stock issuable upon the exercise of options within 60 days.

(3)Number of shares beneficially owned includes 58,288 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 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. On May 8, 2020, the board of directors of the Company approved an amendment to the 2018 Plan to increase the number of shares of Common Stock authorized for issuance thereunder from 1,607,389 shares to 4,607,389 shares, an increase of 3,000,000 shares (the "*2020* Plan Amendment"), which was approved by the stockholders on July 1, 2020 at the 2020 Annual Meeting of Stockholders.

On April 28, 2022, the board of directors of the Company approved an amendment to the 2018 Plan, as amended by the 2020 Plan Amendment, to increase the number of shares of Common Stock authorized for issuance thereunder from 4,607,389 shares to 9,607,389 shares, an increase of 5,000,000 shares (the "2022 Plan Amendment"), which was approved by the stockholders on July 1, 2022 at the 2022 Annual Meeting of Stockholders.

	As of December 31, 2022			
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Non-Vested Restricted Shares Outstanding**	**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	1,162,088	9.05	1,669,424	5,558,998
Equity compensation plans not approved by shareholders	-	-	-	-
Total remaining shares to be issued.	1,162,088	9.05	1,669,424	5,558,998

*423,268 of these securities relate to the LTIP and will not be issued.

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.

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, Anna Massion and David Farahi.

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, 2022 and 2021. 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, 2022 and 2021 and fees billed for other services rendered by PwC during those years.

Category	2022	2021
Audit fees	$ 848,409	$ 660,113
Audit related	175,000	69,000
Tax fees	204,139	231,575
All other fees	900	57,901
Total	$ 1,228,448	$ 1,018,589

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 2022 and 2021 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) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

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, 2022, 2021, and 2020 on page 87 and Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2022, 2021, and 2020 on page 91.

(b). Exhibits

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.(incorporated by reference to Exhibit 4.6 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 4, 2020).
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 10.4 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 10.3 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 10.4 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 10.5 to PlayAGS, Inc.'s Quarterly Report on Form 10-Q filed on November 8, 2018).
10.9	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).
10.10	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).
10.11	Employment Agreement, dated October 21, 2018, by and between AGS, LLC and Victor Gallo. (incorporated by reference to Exhibit 10.12 to PlayAGS, Inc.'s Annual Report on Form 10-K filed on March 4, 2021).
10.12	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).

10.13	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).
10.14	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).
10.15	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).
10.16	First Amendment to PlayAGS, Inc. Omnibus Plan (incorporated by reference to Exhibit 10.3 to PlayAGS, Inc.'s Quarterly Report on Form 10-Q filed on August 5, 2020).
10.17	PlayAGS, Inc. Omnibus Incentive Plan, Performance-Based Restricted Stock Unit Award Agreement (form) (incorporated by reference to Exhibit 10.1 to PlayAGS, Inc.'s Current Report on Form 8-K filed on September 18, 2020)
10.18	Incremental Assumption and Amendment Agreement, dated as of February 15, 2022, 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 party thereto (incorporated by reference to Exhibit 10.1 to PlayAGS, Inc.'s Current Report on Form 8-K filed on February 15, 2022).
*10.19	Amended and Restated Employment Agreement dated March 6, 2023 by and between AGS, LLC and David Lopez.
*10.20	Amended and Restated Employment Agreement dated March 6, 2023 by and between AGS, LLC and Kimo Akiona.
*10.21	Transition and Separation Agreement dated March 7, 2023 by and between AGS, LLC and Vic Gallo.
*10.22	Amendment to Performance-Based Restricted Stock Unit Award Agreement dated March 6, 2023 by and between PlayAGS, Inc. and David Lopez.
*10.23	Amendment to Performance-Based Restricted Stock Unit Award Agreement dated March 6, 2023 by and between PlayAGS, Inc. and Kimo Akiona.
*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	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

ITEM 15 (a) 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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

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 audit 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 9, 2023

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,	
	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 37,891	$ 94,977
Restricted cash	20	20
Accounts receivable, net of allowance of credit losses $1,974 and $1,993, respectively	59,909	49,426
Inventories	35,394	27,534
Prepaid expenses	4,020	4,878
Deposits and other	8,930	8,240
Total current assets	146,164	185,075
Property and equipment, net	82,361	74,916
Goodwill	287,680	285,546
Intangible assets	142,109	160,044
Deferred tax asset	7,893	7,333
Operating lease assets	11,198	12,503
Other assets	7,346	7,394
Total assets	$ 684,751	$ 732,811
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 15,244	$ 9,439
Accrued liabilities	37,262	39,165
Current maturities of long-term debt	6,060	6,877
Total current liabilities	58,566	55,481
Long-term debt	550,081	599,281
Deferred tax liability, non-current	2,048	2,653
Operating lease liabilities, long-term	10,413	11,871
Other long-term liabilities	14,282	21,954
Total liabilities	635,390	691,240
Commitments and contingencies (Note 12)		
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, 2022 and 2021; 37,789,131 and 36,943,770 shares issued and outstanding at December 31, 2022 and 2021, respectively	378	369
Additional paid-in capital	406,436	392,161
Accumulated deficit	(353,125)	(344,889)
Accumulated other comprehensive loss	(4,328)	(6,070)
Total stockholders' equity	49,361	41,571
Total liabilities and stockholders' equity	$ 684,751	$ 732,811

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,		
	2022	2021	2020
Revenues			
Gaming operations	$ 223,802	$ 205,627	$ 129,150
Equipment sales	85,634	54,069	37,857
Total revenues	309,436	259,696	167,007
Operating expenses			
Cost of gaming operations(1)	42,200	38,945	32,087
Cost of equipment sales(1)	44,472	24,262	16,789
Selling, general and administrative	67,728	63,749	46,463
Research and development	39,628	36,308	26,786
Write-downs and other charges	1,923	2,791	3,329
Depreciation and amortization	75,516	73,938	85,722
Total operating expenses	271,467	239,993	211,176
Income (Loss) from operations	37,969	19,703	(44,169)
Other expense (income)			
Interest expense	40,608	44,352	41,935
Interest income	(1,059)	(1,064)	(1,179)
Loss on extinguishment and modification of debt	8,549	—	3,102
Other expense	131	1,185	3,226
Loss before income taxes	(10,260)	(24,770)	(91,253)
Income tax benefit	2,225	2,198	5,875
Net loss	(8,035)	(22,572)	(85,378)
Foreign currency translation adjustment	1,742	(984)	(2,678)
Total comprehensive loss	$ (6,293)	$ (23,556)	$ (88,056)
Basic and diluted loss per common share:			
Basic	$ (0.22)	$ (0.62)	$ (2.40)
Diluted	$ (0.22)	$ (0.62)	$ (2.40)
Weighted average common shares outstanding:			
Basic	37,275	36,688	35,639
Diluted	37,275	36,688	35,639

(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 ($)	Accumulated Other Comprehensive Loss ($)	Total Stockholders' Equity ($)
Balance at January 1, 2020	35,534,558	355	371,311	(235,474)	(2,408)	133,784
Net loss	-	-	-	(85,378)	-	(85,378)
Foreign currency translation adjustment	-	-	-	-	(2,678)	(2,678)
Stock-based compensation expense	-	-	8,457	-	-	8,457
Vesting of restricted stock	1,034,699	9	(9)	-	-	-
Stock option exercises	15,544	-	158	-	-	158
Repurchase of common stock	(90,799)	-	-	(560)	-	(560)
Balance at December 31, 2020	36,494,002	364	379,917	(321,412)	(5,086)	53,783
Net loss	-	-	-	(22,572)	-	(22,572)
Foreign currency translation adjustment	-	-	-	-	(984)	(984)
Stock-based compensation expense	-	-	-	-	-	-
Vesting of restricted stock	-	-	12,250	-	-	12,250
Stock option exercises	574,954	6	(6)	-	-	-
Repurchase of common stock	(125,186)	(1)	-	(905)	-	(906)
Balance at December 31, 2021	36,943,770	369	392,161	(344,889)	(6,070)	41,571
Net loss	-	-	-	(8,035)	-	(8,035)
Foreign currency translation adjustment	-	-	-	-	1,742	1,742
Stock-based compensation expense	-	-	11,893	-	-	11,893
Modification of liability awards to equity	-	-	2,391	-	-	2,391
Vesting of restricted stock	876,265	9	(9)	-	-	-
Repurchase of common stock	(30,904)	-	-	(201)	-	(201)
Balance at December 31, 2022	37,789,131	378	406,436	(353,125)	(4,328)	49,361

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,		
	2022	2021	2020
Cash flows from operating activities			
Net loss	$ (8,035)	$ (22,572)	$ (85,378)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	75,516	73,938	85,722
Accretion of contract rights under development agreements and placement fees	6,345	6,516	7,421
Amortization of deferred loan costs and discount	2,803	4,677	3,656
Writeoff of deferred loan cost and discount	1,586	-	-
Cash paid for debt prepayment penalties to prior debt holders	848	-	-
Stock-based compensation expense	11,893	14,643	8,457
Provision for bad debts	465	235	2,694
Loss on disposition of long-lived assets	427	590	2,399
Impairment of assets	30	2,257	134
Fair value adjustment of contingent consideration	1,466	(56)	796
Benefit from deferred income tax	(829)	(175)	(1,671)
Changes in assets and liabilities related to operations:			
Accounts receivable	(10,534)	(8,133)	16,469
Inventories	(6,252)	1,577	10,099
Prepaid expenses	450	(1,332)	(1,264)
Deposits and other	(436)	(3,516)	517
Other assets, non-current	806	3,789	3,367
Accounts payable and accrued liabilities	1,160	5,894	(17,248)
Net cash provided by operating activities	77,709	78,332	36,170
Cash flows from investing activities			
Issuance of customer notes receivable	-	-	(4,690)
Proceeds from payments on customer notes receivable	1,867	1,362	1,087
Business acquisitions, net of cash acquired	(4,750)	-	-
Purchase of intangible assets	-	-	(1,756)
Software development and other expenditures	(21,127)	(15,432)	(11,017)
Proceeds from disposition of assets	33	35	32
Purchases of property and equipment	(48,111)	(36,102)	(22,939)
Net cash used in investing activities	(72,088)	(50,137)	(39,283)
Cash flows from financing activities			
Repayment of prior first lien credit facilities	(521,215)	(5,387)	(5,387)
Repayment of first lien credit facilities	(4,313)	-	-
Repayment of incremental term loans	(93,575)	(950)	(475)
Repayment of revolver	-	-	(30,000)
Payment of financed placement fee obligations	(5,253)	(4,959)	(6,933)
Proceeds from term loans	569,250	-	-
Proceeds from incremental term loans	-	-	92,150
Borrowing on revolver	-	-	30,000
Payment of deferred loan costs	(4,838)	(848)	(5,744)
Payment of debt prepayment penalties to prior debt holders	(848)	-	-
Payment of previous acquisition obligation	(514)	(534)	(381)
Payments on finance leases and other obligations	(1,213)	(1,321)	(1,185)
Proceeds from stock option exercise	-	-	158
Repurchase of stock	(201)	(906)	(560)
Net cash (used in) provided by financing activities	(62,720)	(14,905)	71,643
Effect of exchange rates on cash, cash equivalents and restricted cash	13	(2)	(3)
Net decrease (increase) in cash, cash equivalents and restricted cash	(57,086)	13,288	68,527
Cash, cash equivalents and restricted cash, beginning of period	94,997	81,709	13,182
Cash, cash equivalents and restricted cash, end of period	$ 37,911	$ 94,997	$ 81,709
Supplemental cash flow information:			
Cash paid during the period for interest	$ 37,208	$ 39,268	$ 37,749
Cash paid during the period for taxes	$ 814	$ 544	$ 423
Non-cash investing and financing activities:			
Leased assets obtained in exchange for new finance lease liabilities	$ 476	$ 317	$ 425
Leased assets obtained in exchange for new operating lease liabilities	$ 956	$ 4,686	$ 84

The accompanying notes are an integral part of these 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 and Mexico 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, “*Pax 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.

Electronic Gaming Machines

Our EGM segment offers a library of proprietary video slot titles developed for the global marketplace, and EGM cabinets which include our premium lease-only cabinets of *Orion Starwall*, *Orion Curve Premium* and *Big Red* ("Colossal Diamonds") as well as cabinets available for sale or lease notably the *Orion Portrait*, *Orion Slant*, *Orion Curve*, *Orion Upright*, and *ICON* cabinets. 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,* as well as our new second shuffler, the *Pax S* single-deck shuffler.

Interactive

We operate a Business-to-Business ("B2B") game aggregation platform for online real-money gaming ("RMG") operators. Through our remote gaming server, we deliver a library of more than 1,000 games, many of which are AGS titles, developed by our internal game-development studios. We also partner with a host of third-party game developers to offer game content across mobile, desktop, and social channels – delivering an experience wherever and whenever players want to engage.

AGS also offers Business-to-Consumer (“B2C”) free-to-play social casino apps that players across the globe can enjoy anytime online or on their mobile device. 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 social casino library includes a variety of game titles including video slots, spinning reels, video poker, blackjack, bingo, and tournaments. Our most popular app, Lucky Play Casino, offers mobile players all the thrills of Vegas casinos. Players can choose from dozens of AGS player-favorite slot games, as well as other casino classics like video poker, blackjack, and bingo. Our apps also feature in-app tournaments, rumbles, VIP bonuses, and unique interactive challenges.

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

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* "*Revenue from contracts with customers*" (ASC 606) including equipment sales in our EGM and, to a lesser extent, in our Table Products segments. 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,		
	2022	2021	2020
EGM			
Gaming operations	$ 199,274	$ 184,050	$ 114,548
Equipment sales	85,057	53,759	37,241
Total	$ 284,331	$ 237,809	$ 151,789
Table Products			
Gaming operations	$ 14,343	$ 11,569	$ 7,353
Equipment sales	577	310	616
Total	$ 14,920	$ 11,879	$ 7,969
Interactive			
Gaming operations (1)	$ 10,185	$ 10,008	$ 7,249
Total	$ 10,185	$ 10,008	$ 7,249

(1) The Interactive gaming operations revenue includes both Social and Real Money Gaming revenue streams that were previously disclosed separately.

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 typically ranges from 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 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. Our participation arrangements are accounted for as operating leases primarily due to these factors. 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 the 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 and maintenance of gaming equipment content and licensing of table product content. It is earned and recognized primarily on a daily and monthly fixed rate, respectively. 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.

Equipment sales are generated from the sale of gaming machines, 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. Equipment 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 elected 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, 2022 and 2021.

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 Credit Losses

Management estimates the allowance for expected credit losses balance using relevant available information from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current environmental economic conditions and reasonable and supportable forecast. The allowance for expected credit losses on financial instruments is measured on a collective (pool) basis when similar risk characteristics exist. The financial instruments that do *not* share risk characteristics, such as receivables related to development agreements, are evaluated on an individual basis. Expected credit losses are estimated over the contractual term of the related financial instruments, adjusted for expected prepayments when appropriate, based on a historical model that includes periodic write-offs, recoveries, and adjustments to the reserve. Historically, the identified portfolio segments have shared low collectability risk with immaterial write-off amounts. The Company made an accounting policy election *not* to present the accrued interest receivable balance on a separate statement of financial position line item. Accrued interest receivable is reported within the respective receivables line items on the consolidated balance sheet.

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

	Allowance for Credit Losses, Year ended December 31,		
	2022	2021	2020
Beginning Balance	$ 1,993	$ 2,077	$ 723
Charge-offs	(484)	(319)	(1,340)
Provision	465	235	2,694
Ending Balance	$ 1,974	$ 1,993	$ 2,077

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, 2022 and December 31, 2021, the value of raw material inventory was $31.0 million and $24.1 million, respectively. As of December 31, 2022 and December 31, 2021, the value of finished goods inventory was $4.4 million and $3.4 million, respectively. There was no work in process material as of December 31, 2022 and December 31, 2021.

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)	1 to 5
Other property and equipment (in years)	3 to 5

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.

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.

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 following table presents the estimated fair value of our long-term debt as of December 31, 2022 and 2021:

	December 31, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term Debt	$ 571,375	$ 539,987	$ 615,743	$ 613,706

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.

Our policy is to account for global intangible low-taxed income as a period cost if and when incurred.

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, 2022 and 2021, 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, Washington and Texas. For the year ended December 31, 2022, there were no revenues greater than 10% of our total revenues derived from one customer. For the years ended December 31, 2021 and 2020, approximately 12% and 15% of our total revenues were derived from one customer. For the years ended December 31, 2022, 2021 and 2020 approximately 6%, 5% and 4% of our total revenues were derived in Mexico, respectively.

As of December 31, 2022 and December 31, 2021, no single customer represented more than 10% of our total accounts receivables balance. As of December 31, 2022, we had $3.0 million of net accounts receivable in Mexico in which casino operations continue to be impacted by casino closures and other restrictions as a result of the local government's responses to the COVID-19 pandemic. We have contemplated this impact in the allowance for credit losses as of December 31, 2022.

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 total comprehensive loss in stockholders' equity.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2022, 2021 and 2020 were $0.1 million, $0.3 million and $0.3 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

In March 2022, the FASB issued ASU *No. 2022-02, Financial Instruments - Credit Losses (Topic 326).* ASU *No. 2022-02* eliminates the accounting guidance for troubled debt restructurings by creditors in ASC *310-40* and requires disclosure of current-period gross write-offs by year of origination for financing receivables and net investments in leases. ASU *No. 2022-02* is effective for fiscal years beginning after *December 15, 2022,* including interim periods within those fiscal years with earlier adoption permitted. We do *not* anticipate the provisions of this amendment to have a significant effect on our financial statements.

We have not adopted any new accounting pronouncements in the current year and there has not been any other recently issued accounting guidance that will have a significant effect on our financial statements.

NOTE 2. PROPERTY AND EQUIPMENT

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

		December 31, 2022		December 31, 2021
Gaming equipment	$	232,244	$	196,748
Other property and equipment		22,922		23,973
Less: Accumulated depreciation		(172,805)		(145,805)
Total property and equipment, net	$	82,361	$	74,916

Gaming equipment and other property and equipment are depreciated over the respective useful lives of the assets ranging from one to five years. Depreciation expense was $39.4 million, $37.9 million and $39.5 million for the years ended December 31, 2022, 2021 and 2020, respectively.

NOTE 3. GOODWILL AND INTANGIBLES

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

	Carrying Amount							
		EGM		Table Products		Interactive(1)		Total
Balance at December 31, 2020	$	278,221	$	7,821	$	-	$	286,042
Foreign currency adjustments		(496)		-		-		(496)
Balance at December 31, 2021	$	277,725	$	7,821	$	-	$	285,546
Foreign currency adjustments		904		-		-		904
Acquisition		-		1,230		-		1,230
Balance at December 31, 2022	$	278,629	$	9,051	$	-	$	287,680

(1) Accumulated goodwill impairment charges for the Interactive segment as of December 31, 2022 were $8.4 million.

The Company tests for possible impairment of indefinite lived intangible assets at least annually, on October 1. The Company performed a qualitative assessment as of October 1, 2022 and October 1, 2021 on the EGM and Table Products reporting units and determined that it was not more likely than not that the fair value of the EGM and Table Products reporting units were less than their carrying amounts as of the assessment date. In this assessment, we relied on several qualitative factors such as industry and macroeconomic conditions, as well as current projected cash flows and the fiscal year's 2020 quantitative analysis, that concluded the excess fair value was over carrying value for the EGM and Table Products reporting units were $113.4 million and $8.9 million, respectively. There is no balance of goodwill in the Company’s other reporting unit.

Intangible assets consist of the following (in thousands):

		December 31, 2022			December 31, 2021		
	Useful Life (years)	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	14,990	(14,722)	268	14,870	(14,495)	375
Customer relationships	5 - 12	219,146	(167,629)	51,517	218,247	(155,140)	63,107
Contract rights under development and placement fees	1 - 7	42,395	(23,844)	18,551	42,535	(17,639)	24,896
Gaming software and technology platforms	1 - 7	198,666	(147,437)	51,229	177,686	(126,182)	51,504
Intellectual property	10 - 12	21,845	(13,427)	8,418	19,345	(11,309)	8,036
Total intangible assets		$ 509,168	$ (367,059)	$ 142,109	$ 484,809	$ (324,765)	$ 160,044

Intangible assets are amortized over their respective estimated useful lives ranging from one to twelve years. Amortization expense related to intangible assets was $36.1 million, $36.0 million and $46.2 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Management reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no impairments recorded for the year ended December 31, 2022 and December 31, 2021.

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 $6.3 million, $6.5 million and $7.4 million for the years ended December 31, 2022, 2021 and 2020, 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. In 2019, we entered into a development agreement with a customer in which we provided a $9.2 million note receivable to be repaid over four years and as of December 31, 2022 $3.4 million remains outstanding on this note.

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 years ended December 31,	Amortization Expense	Placement Fee Accretion
2023	$ 35,521	$ 6,182
2024	30,903	5,941
2025	22,573	5,721
2026	11,169	707
2027	6,453	—
Thereafter	4,813	—
Total	$ 111,432	$ 18,551

NOTE 4. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2022	2021
Salary and payroll tax accrual	$ 13,255	$ 16,994
Taxes payable	2,903	4,016
Current portion of operating lease liability	2,287	2,137
License fee obligation	1,000	1,000
Placement fees payable	6,314	6,314
Accrued other	11,503	8,704
Total accrued liabilities	$ 37,262	$ 39,165

NOTE 5. LONG-TERM DEBT

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

	December 31,	
	2022	2021
First Lien Credit Facilities:		
Term loans, interest at SOFR, subject to a 0.75% floor plus 4.0% (8.7% at December 31, 2022), net of unamortized discount and deferred loan costs of $15.2 million at December 31, 2022	$ 555,453	$ -
Term loans, interest at LIBOR or base rate plus 3.5% (4.5% at December 31, 2021), net of unamortized discount and deferred loan costs of $4.0 million at December 31, 2021	-	517,247
Incremental term loans, interest at LIBOR or base rate plus 13.0% (14.0% at December 31, 2021), net of unamortized discount and deferred loan costs of $5.6 million at December 31, 2021	-	87,958
Finance Leases	688	953
Total debt	556,141	606,158
Less: Current portion	(6,060)	(6,877)
Long-term debt	$ 550,081	$ 599,281

First Lien Credit Facilities

On *February 15, 2022,* AP Gaming I, LLC (the “Borrower”), a Delaware limited liability company and wholly owned indirect subsidiary of PlayAGS, Inc. (the “Company”) and AP Gaming Holdings, LLC, a Delaware limited liability company and wholly owned indirect subsidiary of the Company (“Holdings”) entered into the Amended Credit Agreement with certain of the Borrower’s subsidiaries, the lenders party thereto and Jefferies Finance LLC, as administrative agent (the "Amended Credit Agreement"). The Amended Credit Agreement amends and restates the existing credit agreement, among the Borrower, Holdings, the lenders party thereto from time to time, the Administrative Agent and the other parties named therein.

The Borrower is a direct subsidiary of AP Gaming Holdings, LLC, which is a direct subsidiary of AP Gaming, Inc., which is a direct subsidiary of PlayAGS, Inc. These entities between the Borrower and PlayAGS, Inc. are holding companies with *no* other operations, cash flows, material assets or liabilities other than the equity interests in the Borrower.

The Amended Credit Agreement provides (i) a senior secured *first* lien term loan in an aggregate principal amount of $575.0 million (the “New Term Loan Facility”), the proceeds of which, together with cash on hand of the Borrower and its subsidiaries, were used by the Borrower on the Closing Date to repay all amounts outstanding under the existing term loan facilities set forth in the Existing Credit Agreement and to pay related fees and expenses, and (ii) a $40.0 million senior secured *first* lien revolving facility, with a $7.5 million letter of credit subfacility and a $5.0 million swingline subfacility (the “New Revolving Credit Facility”).

Borrowings under the Amended Credit Agreement bear interest at a per annum rate equal to, at the Borrower’s election, either (a) an adjusted term Secured Overnight Financing Rate ("SOFR") for the interest period in effect, subject to a floor of (i) in the case of term loan borrowings, 0.75% and (ii) in the case of revolver borrowings, 0.00% or (b) a base rate determined by the highest of (i) the prime rate in effect, (ii) the federal funds effective rate plus 0.50% and (iii) an adjusted term SOFR with an interest period of *one* month plus 1.00%, in each case plus an applicable margin of 4.00% for adjusted term SOFR loans and 3.00% for base rate loans.

The New Term Loan Facility will mature on *February 15, 2029* and, commencing with the quarter ending *June 30, 2022,* will amortize in quarterly installments equal to 0.25% of the original aggregate principal amount of the term loans, with the balance due at maturity. The commitments under the New Revolving Credit Facility will terminate on *February 15, 2027.*

The Borrower *may* voluntarily repay outstanding loans under the Amended Credit Agreement at any time, without prepayment premium or penalty, except in connection with a repricing event in respect of the New Term Loan Facility, subject to customary breakage costs with respect to adjusted term SOFR loans. Any refinancing through the issuance of certain debt or any repricing amendment, in either case, that constitutes a repricing event applicable to the New Term Loan Facility resulting in a lower yield occurring at any time on or prior to *August 15, 2022* will be accompanied by a 1.00% prepayment premium or fee, as applicable.

The Amended Credit Agreement includes customary mandatory prepayment events, affirmative covenants, negative covenants and events of default. In addition, the New Revolving Credit Facility requires the Borrower to comply on a quarterly basis, commencing on *June 30, 2022,* with a maximum net *first* lien senior secured leverage ratio of 6.70 to *1.00* if the aggregate amount of funded loans and issued letters of credit (excluding up to $5.0 million of undrawn letters of credit under the New Revolving Credit Facility and letters of credit that are cash collateralized) under the New Revolving Credit Facility on such date exceeds 35% of the then-outstanding commitments under the New Revolving Credit Facility.

An additional $17.6 million in loan costs including original issue discount, lender fees, *third*-party costs, and make-whole premium were incurred related to the Amended Credit Agreement. Given the composition of the lender group, the transaction was accounted for as a debt modification for existing lenders. As a result of the amendment, approximately $8.5 million in costs were expensed and included in the loss on extinguishment and modification of debt, and the remaining costs were capitalized and will be amortized over the term of the agreement.

As of December 31, 2022, there were no required financial covenants for our debt instruments.

Finance Leases

The Company has entered into leases for vehicles and equipment that are accounted for as finance leases, as described in Note 14. "Leases".

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, 2022, are as follows (in thousands):

For the year ending December 31,		
2023	$	6,060
2024		5,921
2025		5,843
2026		5,864
2027		5,750
Thereafter		541,938
Total scheduled maturities		571,376
Unamortized debt discount and debt issuance costs		(15,235)
Total debt	$	556,141

NOTE 6. STOCKHOLDERS' EQUITY

Our amended and restated articles of incorporation provide that our authorized capital stock will 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, 2022, we have 37,789,131 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.

Dividend and Distribution Rights

All shares of our common stock are entitled to share equally in any dividends and distributions our board of directors *may* declare from legally available sources, subject to the terms of any outstanding preferred stock.

Share Repurchase Program

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. The board approved extending this share buyback program to August 11, 2023. As of December 31, 2022, $47.0 million of the $50.0 million authorized by the board of directors is still available for repurchasing of Company's shares of common stock.

NOTE 7. 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, 2022, the Company identified an error related to the fair value of adjustments to contingent consideration and recorded an adjustment of $1.5 million, of which approximately $1.2 million relates to periods prior to January 1, 2022. The Company evaluated the impact of the error and concluded that prior periods were not materially misstated and the adjustment did not have a material impact to the current year financial statements. The adjustment was recorded in other long-term liabilities and had no effect on the Condensed Consolidated Statements of Cash Flows.

During the year ended December 31, 2022, the Company recognized $1.9 million in write-downs and charges primarily related to a fair value adjustment to contingent consideration (the Company used level 3 fair value inputs based on projected cash flows).

During the year ended December 31, 2021 the Company recognized $2.8 million in write-downs and charges, $1.4 million of which is primarily related to the full impairment of long-lived assets related to a discontinued product line (the Company used level 3 fair value inputs based on projected cash flows), $0.8 million of which is primarily related to the full impairment of internally developed gaming titles, as it was determined by management that the gaming titles would no longer be used (the Company used level 3 fair value inputs based on projected cash flows), and $0.6 million of which is primarily related to the disposal of long-lived assets.

During the year ended December 31, 2020, the Company recognized $3.3 million in write-downs and other charges primarily related to the write-off of placement fee intangible assets associated with the sale of previously leased EGMs to distributors in the period of $1.9 million and fair value adjustments to contingent consideration of $0.8 million (the Company used level 3 fair value measurements based on projected cash flows).

NOTE 8. BASIC AND DILUTED LOSS PER SHARE

The Company computes net loss 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 Statements of Operations and Comprehensive Loss. Basic EPS is computed by dividing net loss 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 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 (Note 10. "Stock-Based Compensation").

There were no potentially dilutive securities for the years ended December 31, 2022, 2021 and 2020 because the Company reported a net loss in each year.

Excluded from the calculation of diluted EPS for the years ended December 31, 2022, 2021 and 2020, were 2,106,766 participating securities, 1,850,286 participating securities, and 1,191,944 participating securities, respectively, as such securities were anti-dilutive. As of December 31, 2022, and 2021, we had 1,796,053 awards that have not been considered in dilutive shares because their performance vesting conditions have not been met. Excluded from the calculation of diluted EPS for the years ended December 31, 2022, 2021 and 2020 were 19,197 stock options, 273,414 stock options, and 32,591 stock options, respectively, as such securities were anti-dilutive.

NOTE 9. 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. In April of 2020*,* the Company temporarily suspended 401(k) matching contributions and resumed these contributions in January 2021. The expense associated with the 401(k) Plan for the years ended December 31, 2022, 2021 and 2020 was $1.8 million, $1.5 million and $0.4 million, respectively.

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. As of December 31, 2022, 423,268 shares remain available for issuance; however, these will not be issued and awards granted by the Company in the future are expected to be from the Omnibus Incentive Plan only.

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. On May 8, 2020, the board of directors of the Company approved an amendment to the 2018 Plan to increase the number of shares of Common Stock authorized for issuance thereunder from 1,607,389 shares to 4,607,389 shares, an increase of 3,000,000 shares (the "*2020* Plan Amendment"), which was approved by the stockholders on July 1, 2020 at the 2020 Annual Meeting of Stockholders.

On April 28, 2022, the board of directors of the Company approved an amendment to the 2018 Plan, as amended by the 2020 Plan Amendment, to increase the number of shares of Common Stock authorized for issuance thereunder from 4,607,389 shares to 9,607,389 shares, an increase of 5,000,000 shares (the "2022 Plan Amendment"), which was approved by the stockholders on July 1, 2022 at the 2022 Annual Meeting of Stockholders. As a result of the 2022 Plan Amendment, awards that were previously accounted for as liability awards were reclassified to equity as they are expected to be settled with equity. Prior to the 2022 Plan Amendment, there were insufficient shares available to settle the liability awards with equity. As of December 31, 2022, we had 5,135,730 shares available for issuance.

NOTE 10. STOCK-BASED COMPENSATION

The Company has granted equity or equity-based awards to eligible participants under its incentive plans. The awards include options to purchase the Company's common stock, restricted stock or restricted stock units and phantom stock units. These awards include a combination of service and market conditions, as further described below. For the year ended December 31, 2022, the Company recognized $7.3 million in stock compensation expense associated with restricted stock and restricted stock units, and $4.6 million with phantom stock units.

We recognize stock-based compensation on a straight-line basis over the vesting period for time based awards and we recognize the expense for awards with market conditions over the service period derived from the related valuation. As of December 31, 2022, there was no unrecognized compensation expense associated with stock options, $1.7 million was associated with restricted stock and restricted stock units, and $2.7 million with phantom stock units. The unrecognized compensation expense associated with restricted and phantom stock units is expected to be recognized over a 1.4 and 1.8 year weighted average period, respectively.

Stock Options

The Company calculates the grant date fair value of stock options that vest over a service period using the Black Scholes model. For stock options and other stock awards that contain a market condition related to the return on investment that the Company's stockholders achieve or obtaining a certain stock price, the awards are valued using a lattice-based valuation model. The assumptions used in these calculations are the expected dividend yield, expected volatility, risk-free interest rate and expected term (in years). Expected volatilities are based on implied volatilities from comparable companies. 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 during the years ended December 31, 2022 and 2021.

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 20% or 25% on each of the *first* five or 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 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"). These performance conditions included the achievement of investor returns or common stock trading prices. These performance conditions were achieved in October of 2018 for all Performance Options that have been granted and there are currently 493,104 Performance Options exercisable and outstanding.

A summary of the changes in stock options outstanding during the year ended December 31, 2022, 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, 2021	1,244,073	$ 9.14	3.4	$ 193
Granted	-	-	-	-
Exercised	-	-	-	-
Canceled or forfeited	(81,985)	$ 10.51	-	-
Options outstanding as of December 31, 2022	1,162,088	$ 9.05	2.4	$ -
Exercisable as of December 31, 2022	1,162,088	$ 9.05	2.4	$ -

Restricted Stock and Restricted Stock Units

Restricted stock awards and restricted stock units 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 awards shall become vested.

Certain restricted stock units are eligible to vest upon the satisfaction of certain performance conditions. Vesting occurs on the first day that the average price per share of our common stock for the prior 60 consecutive trading days exceeds certain stock prices, subject to continued employment with the Company or its subsidiaries.

A summary of the changes in restricted stock shares outstanding during the year ended December 31, 2022 is as follows:

	Shares Outstanding	Grant Date Fair Value (per share)
Outstanding as of December 31, 2021	1,934,876	$8.25
Granted	283,229	$5.99
Vested	(503,374)	$10.26
Canceled or forfeited	(45,307)	$8.85
Outstanding as of December 31, 2022	1,669,424	$7.24

Phantom Stock Units

Phantom stock units 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 units shall become vested. The phantom stock units outstanding at December 31, 2022 may be settled in cash or stock at the Company's discretion. The phantom stock units that the Company intends to settle in cash are accounted for as liability awards and are re-measured at fair value each reporting period until they become vested with compensation expense being recognized over the requisite service period. The liability associated with such rewards is included in "Accrued Liabilities" within the Consolidated Balance Sheets. All other stock-based awards are classified as equity.

Certain phantom stock units are eligible to vest upon the satisfaction of certain performance conditions. Vesting occurs on the first day that the average price per share of our common stock for the prior 60 consecutive trading days exceeds certain stock prices, subject to continued employment with the Company or its subsidiaries.

A summary of the changes in phantom stock outstanding during the year ended December 31, 2022 is as follows:

	Shares Outstanding	Grant Date Fair Value (per share)	
Phantom Stock Outstanding as of December 31, 2021	2,253,400	$	6.47
Granted	881,098	$	4.88
Vested	(423,197)	$	6.24
Canceled or forfeited	(91,693)	$	6.40
Phantom Stock Outstanding as of December 31, 2022	2,619,608	$	5.98

NOTE 11. INCOME TAXES

The components of loss before provision for income taxes are as follows (in thousands):

	Year ended December 31,					
		2022		2021		2020
Domestic	$	(12,820)	$	(21,235)	$	(80,939)
Foreign		2,560		(3,535)		(10,314)
Loss before provision for income taxes	$	(10,260)	$	(24,770)	$	(91,253)

The income tax (benefit) expense is as follows (in thousands):

	Year ended December 31,					
		2022		2021		2020
Current:						
Federal	$	—	$	—	$	(1,495)
State		569		139		262
Foreign		(1,957)		(1,966)		(3,012)
Total current income tax (benefit) expense		(1,388)		(1,827)		(4,245)
Deferred:						
Federal		(482)		342		365
State		(123)		57		53
Foreign		(232)		(770)		(2,048)
Total deferred income (benefit) expense		(837)		(371)		(1,630)
Income tax (benefit) expense	$	(2,225)	$	(2,198)	$	(5,875)

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,		
	2022	2021	2020
Federal statutory rate	(21.0)%	(21.0)%	(21.0)%
Foreign rate differential	1.5%	(0.1)%	(0.9)%
State income taxes, net of federal benefit	6.9%	(3.5)%	(2.9)%
U.S. tax on foreign income, net of foreign tax credits	29.2%	0.6%	2.8%
Tax indemnification charges	—%	1.0%	1.0%
Stock compensation	4.0%	1.4%	1.0%
Other differences	5.4%	0.1%	0.6%
Withholding tax	4.3%	1.2%	0.2%
Rate changes	(3.0)%	(6.4)%	—%
Research tax credits	(15.5)%	(5.8)%	0.3%
Uncertain tax positions	(16.5)%	(5.8)%	(2.8)%
Valuation allowance	(17.0)%	29.4%	15.3%
Effective tax rate	(21.7)%	(8.9)%	(6.4)%

The components of the net deferred tax assets (liability) consist of the following (in thousands):

	December 31,	
	2022	2021
Deferred tax assets:		
Accrued expenses	$ 2,934	$ 4,433
Stock compensation	5,590	4,657
Foreign tax credits	7,660	9,429
Net operating loss carryforwards	32,982	42,433
Research and experimentation	14,568	6,848
Debt	26,057	21,239
Other	2,580	3,102
Total deferred tax assets	92,371	92,141
Valuation allowance	(60,114)	(62,233)
Deferred tax assets, net of valuation allowance	$ 32,257	$ 29,908
Deferred tax liabilities:		
Prepaid expenses and other	$ (714)	$ (519)
Intangible assets, net	(14,180)	(15,481)
Property and equipment, net	(11,520)	(9,228)
Deferred tax liabilities	(26,414)	(25,228)
Net deferred tax assets (liabilities)	$ 5,843	$ 4,680

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, 2022 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, 2022, a valuation allowance of $60.1 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, 2022, the Company had $7.7 million of foreign tax credits which, if unused, will expire in years 2023 through 2032. In addition, the Company has $8.0 million of research and development credits which begin to expire in 2029. 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 $129.7 million, in foreign jurisdictions of $13.7 million and various U.S. states of $74.6 million. The U.S. federal NOL carryforwards begin to expire in 2034, the U.S. state NOL carryforwards begin to expire in 2023, and certain foreign NOL carryforwards begin to expire in 2031 and the remaining can be carried forward indefinitely. We believe that it is more likely than not that the benefit from certain federal, state and foreign NOL carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance on the deferred tax assets related to these NOL carryforwards.

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 2022 and 2021 (amounts in thousands):

	December 31, 2022	December 31, 2021
Balance-beginning of year	$ 6,519	$ 7,405
Increases based on tax positions of the current year	480	520
Decreases due to lapse of statute	(1,287)	(1,434)
Increases based on tax positions of the prior years	—	77
Currency translation adjustments	40	(49)
Balance-end of year	$ 5,752	$ 6,519

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, 2022 was $5.8 million. Of this amount, $1.0 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 $0.9 million before December 31, 2023 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 $1.2 million during 2022. 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, 2022, the Company has a liability of $1.1 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 2022 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 2017 to 2022 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 $0.8 million was recorded as an other asset in the financial statements for the year ended December 31, 2020. This amount included 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. Statute of limitations expired on all indemnified tax positions in 2021 and the indemnification receivable was reduced to zero accordingly.

NOTE 12. 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. 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.

During the three months ended September 30, 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.

On June 25, and July 31, 2020 putative class action lawsuits were filed in the United States District Court for the District of Nevada (the "Court"), by two separate plaintiffs against PlayAGS, Inc. (the "Company") and certain of its officers, individually and on behalf of all persons who purchased or otherwise acquired Company securities between August 2, 2018 and August 7, 2019. The complaints alleged that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") by making false and misleading statements concerning the Company's forward-looking financial outlook and accounting for goodwill and intangible assets in its iGaming reporting unit, resulting in injury to the purported class members when the value of the Company's common stock declined following its release of its Second Quarter 2019 results on August 7, 2019.

On August 4, 2020, a third plaintiff ("OPPRS") filed a putative class action lawsuit in the same court asserting similar claims to those alleged in the first two class action complaints, based on substantially the same conduct, on behalf of a slightly larger class (stretching back to May 3, 2018). Specifically, OPPRS claimed that the Company, certain of its officers, and certain entities that allegedly beneficially held over 50% of the Company's common stock at the beginning of the class period, violated Sections 10(b) and 20(a) of the Exchange Act by allegedly making false and misleading statements concerning the Company's forward-looking financial outlook and accounting for goodwill and intangible assets in its iGaming reporting unit, and the adequacy of its internal controls over financial reporting, resulting in injury to the purported class when the Company's common stock price declined following the release of its Second Quarter 2019 results. In addition, based on substantially similar alleged false or misleading statements, OPPRS asserted claims under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, on behalf of all persons who purchased Company common stock pursuant and/or traceable to the Company's August 2018 and March 2019 secondary public offerings. These secondary-offering claims were brought against the same defendants identified above, plus certain of the Company's directors and the underwriters.

On October 28, 2020, the Court consolidated these three related putative class actions into In re PlayAGS, Inc. Securities Litigation and appointed OPPRS as lead plaintiff. On January 11, 2021, the lead plaintiff filed an Amended Complaint in the consolidated action against the same set of defendants, again asserting claims (i) under Sections 10(b) and 20(a) of the Exchange Act, with an even larger putative class period (May 3, 2018 through March 4, 2020), and (ii) under Sections 11, 12(a)(2) and 15 of the Securities Act on behalf of the same putative class as in OPPRS's previous complaint. The Amended Complaint alleges that statements the defendants made about, among other things, the Company's growth, financial performance, and forward-looking financial outlook were materially false or misleading because the Company omitted to state that, according to plaintiffs, its market strength was declining, its growth strategies were unsustainable, and it was experiencing challenges in the Oklahoma market. Plaintiffs claim that the purported class was injured when the common stock price declined after the alleged "truth" was revealed following release of the Company's financial reports on August 7, 2019, November 7, 2019, and March 4, 2020. Plaintiffs also assert that the Company violated Regulation S-K Items 303 and 105 by failing to disclose these same alleged negative trends and significant risks in the registration materials for the Company's secondary offerings. Unlike the previous complaints, the Amended Complaint does not allege false or misleading statements concerning the Company's accounting for the iGaming reporting unit or the adequacy of the Company's internal controls over financial reporting.

On February 23, 2021, the Court granted the lead plaintiff's unopposed motion to file a Second Amended Complaint. The Second Amended Complaint was filed on March 25, 2021 and asserts substantially the same claims as the Amended Complaint but extends the beginning of the putative class period back to January 26, 2018. On May 24, 2021, the defendants filed motions to dismiss the Second Amended Complaint, and on December 2, 2022, the court granted in part and denied in part those motions. It dismissed each of the five claims in the Second Amended Complaint—including all claims under the Securities Act—but the court carved out from the dismissal a "scheme liability" claim under Section 10(b), brought only against the Company, David Lopez, and Kimo Akiona, which the court felt was insufficiently briefed. The lead plaintiff was granted leave to file a further amended complaint but chose not to, and instead seeks to move forward on the sole remaining scheme liability claim.

On January 17, 2023, the Company, Mr. Lopez, and Mr. Akiona filed an answer to the remaining claim, along with a motion to temporarily stay discovery and a motion for judgment on the pleadings, arguing that the legal findings contained in the court's December 2, 2022 decision require dismissal of the scheme liability claim as well and termination of the action. The parties are currently briefing the motion for judgment on the pleadings and motion to temporarily stay discovery. The defendants believe all claims in the action are without merit, and intend to defend vigorously against them, but there can be no assurances as to the outcome.

On March 18, 2022, a shareholder derivative lawsuit was filed in the United States District Court for the District of Nevada by putative stockholder Manjan Chowdhury, allegedly on behalf of the Company, that piggy-backs on the consolidated securities class action referenced above and currently pending before the same Court. The derivative complaint names David Lopez, Kimo Akiona, and members of the Board as defendants, and generally alleges that they breached their fiduciary duties by causing or failing to prevent the same allegedly false and misleading statements asserted in the securities class action. The derivative complaint also alleges claims for contribution against Mr. Lopez and Mr. Akiona under Sections 10(b) and 21D of the Exchange Act. On June 9, 2022, the court stayed the derivative action, pursuant to a stipulation between the parties, pending resolution of the motion to dismiss the consolidated securities class action. On January 27, 2023, at the request of the parties, the court ordered that the derivative action remain stayed pending resolution of the motion for judgment on the pleadings in the securities class action. The Company and the individual defendants believe the claims in the shareholder derivative action are without merit and intend to defend vigorously against them, but there can be no assurances as to the outcome.

At this time, we are unable to estimate the probability or the amount of liability, if any, related to this matter.

In January 2021, we obtained the results of an audit conducted by the Alabama Department of Revenue ("ADOR"), in which the ADOR assessed $3.3 million including interest in unpaid state and local rental taxes on participation revenues and licensing fees that we received from the leasing of EGMs to a Native American tribe in the state of Alabama in the period from May 2016 through August 2019. ADOR claims that such revenues constitute a lease rental payment and are deemed taxable in nature even in situations involving Native American tribe lessees.

We believe that we were not required to collect and remit Alabama state lease/rental tax on our leases of EGMs in the state as those leases are on federally designated Indian reservation land and because federal Indian trading laws and Indian gaming laws, as well as the U.S. Constitution, preempt application of the rental tax to these transactions with the Native American tribe. We have disputed ADOR's audit findings in accordance with applicable state and local tax procedures and ADOR rules. Our dispute is currently in the discovery phase at the Alabama Tax Tribunal, which is the independent tax court for the state of Alabama. We expect a hearing for this dispute at the Alabama Tax Tribunal will be scheduled in 2023.

We have not accrued the $3.3 million assessed by ADOR, as we do not believe that it is probable that a liability has occurred. However, if we do not prevail in the dispute with ADOR, we may be required to accrue this amount as well as applicable interest. It is also possible that ADOR may similarly audit the participation revenues and licensing fees that we received from the leasing of EGMs to a Native American tribe in the state of Alabama subsequent to August 2019. While we cannot reasonably calculate the amount that ADOR would assess for the revenues from such subsequent periods due to the types of revenues and rates that apply, based solely on the amount assessed for the period from May 2016 through August 2019, we estimate that ADOR's assessment for taxable lease rental payments for subsequent periods through December 31, 2022 would not exceed $2.2 million, excluding interest. There is no assurance that ADOR will assess our revenues from subsequent periods or that such assessment will not materially differ from our estimate.

NOTE 13. 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. "Description of the Business and Summary of Significant Accounting Policies" 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:

- Write-downs and other include items related to loss on disposal or impairment of long-lived assets and fair value adjustments to contingent consideration;
- Depreciation, amortization;
- 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;
- Other adjustments, which are primarily composed of:
  - Costs and inventory and receivable valuation charges associated with the COVID-19 pandemic, professional fees incurred for projects, costs incurred related to public offerings, contract cancellation fees and other transaction costs deemed to be non-operating in nature;
  - Acquisition and integration-related costs related to the purchase of businesses and to integrate operations and obtain costs synergies;
  - Restructuring and severance costs, which 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;
  - Legal and litigation related costs, which consist of payments to law firms and settlements for matters that are outside the normal course of business;
- 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; and
- Non-cash stock-based compensation includes non-cash compensation expense related to grants of options, restricted stock, and other equity awards.

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.

The following provides financial information concerning our reportable segments for the years ended December 31, 2022, 2021, and 2020 (amounts in thousands):

	2022	2021	2020
Revenues by segment			
EGM	$ 284,331	$ 237,809	$ 151,789
Table Products	14,920	11,879	7,969
Interactive	10,185	10,008	7,249
Total Revenues	309,436	259,696	167,007
Adjusted EBITDA by segment			
EGM	127,502	112,817	65,877
Table Products	8,781	6,438	3,360
Interactive	2,360	3,332	2,432
Subtotal	138,643	122,587	71,669
Write-downs and other:			
Loss on disposal of long lived assets	427	590	2,399
Impairment of long lived assets	30	2,257	134
Fair value adjustments to contingent consideration and other items	1,466	(56)	796
Depreciation and amortization	75,516	73,938	85,722
Interest expense, net of interest income and other	39,680	44,473	43,982
Loss on extinguishment and modification of debt	8,549	—	3,102
Other adjustments	2,225	3,119	8,618
Other non-cash charges	9,117	8,393	9,712
Non-cash stock compensation	11,893	14,643	8,457
Loss before income taxes	$ (10,260)	$ (24,770)	$ (91,253)

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, 2022, 2021, and 2020 (amounts in thousands):

	Year ended December 31,		
Revenue:	2022	2021	2020
United States	$ 272,473	$ 237,396	$ 151,187
Other	36,963	22,300	15,820
Total Revenue	$ 309,436	$ 259,696	$ 167,007

	Year ended December 31,		
Long-lived assets:	2022	2021	2020
United States	$ 79,137	$ 72,904	$ 76,879
Other	10,570	9,406	13,623
Total long-lived assets	$ 89,707	$ 82,310	$ 90,502

NOTE 14. 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.

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, 2022 and 2021, 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, 2022 and as of December 31, 2021:

Leases (in thousands)	Classification	As of December 31, 2022	As of December 31, 2021
Assets			
Operating leases	Operating lease assets(a)	$ 11,198	$ 12,503
Finance leases	Property and equipment, net(b)	597	760
Total leased assets, net		$ 11,795	$ 13,263
Liabilities			
Current:			
Operating leases	Accrued liabilities	$ 2,287	$ 2,137
Finance leases	Current maturities of long-term debt	322	540
Non-current:			
Operating leases	Operating lease liabilities, long-term	10,413	11,871
Finance leases	Long-term debt	366	413
Total lease liability		$ 13,388	$ 14,961

(a) Operating lease assets are recorded net of accumulated amortization of $5.4 million and $4.4 million as of December 31, 2022 and 2021, respectively
(b) Finance lease assets are recorded net of accumulated amortization of $0.7 million and $1.8 million as of December 31, 2022 and 2021, respectively.

The table below discloses the costs for operating and finance leases for the years ended December 31, 2022, 2021, and 2020:

		Year Ended December 31,		
		2022	2021	2020
Operating lease costs (in thousands)	**Classification**			
Operating lease cost - office building	Selling, general and administrative	$ 2,411	$ 2,108	$ 1,519
Operating lease cost - R&D	Research and development	-	-	377
Operating lease cost - warehouses	Cost of gaming operations (c)	546	546	553
Total Operating Lease cost:		$ 2,957	$ 2,654	$ 2,449
Finance lease cost				
Depreciation of leased assets	Depreciation and amortization	$ 435	$ 744	$ 784
Interest on lease liabilities	Interest expense	18	29	41
Total Finance Lease cost:		453	773	825
Total Lease Cost		$ 3,410	$ 3,427	$ 3,274

(c) Subject to capitalization.

The table below sets forth the maturity of the operating and financing leases liabilities for five years and thereafter under ASC 842:

	Operating Leases	Financing Leases	Total
Maturity of lease liabilities (in thousands)			
2023	$ 2,914	$ 322	$ 3,236
2024	2,900	178	3,078
2025	2,916	97	3,013
2026	2,996	114	3,110
2027	2,341	-	2,341
Thereafter	449	-	449
Total lease payments	$ 14,516	$ 711	$ 15,227
Less: interest	1,816	23	1,839
Present value of lease liabilities	$ 12,700	$ 688	$ 13,388

The following table sets forth the weighted average of the lease terms and discount rates for operating and finance leases as of December 31, 2022 and 2021.

	As of December 31, 2022	As of December 31, 2021
Lease term and discount rate		
Operating		
Weighted average remaining lease term (years)	4.9	5.8
Weighted average discount rate	5.4%	5.4%
Finance Leases		
Weighted average remaining lease term (years)	2.0	1.2
Weighted average discount rate	2.4%	2.2%

Other Information

The table below discloses cash paid for the amounts included in the measurement of lease liabilities for the years ended December 31, 2022, 2021, and 2020:

	Year Ended December 31,		
	2022	2021	2020
Cash paid for amounts included in the measurement of lease liabilities (in thousands)			
Operating cash flows from operating leases	$ 2,954	$ 2,747	$ 2,918
Operating cash flows from finance leases	$ 18	$ 29	$ 41
Financing cash flows from finance leases	$ 422	$ 604	$ 691

NOTE 15. SUBSEQUENT EVENTS

None.

NOTE 16. ACQUISITIONS

On January 3, 2022, the Company acquired certain intangible assets related to the purchase of table game-related intellectual property and an installed base of table games under the Lucky Lucky trade name from Aces Up Gaming. The acquisition was accounted for as an acquisition of 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 $4.8 million was allocated primarily to tax deductible goodwill for $1.2 million and intangible assets of $3.5 million, primarily attributable to intellectual property, and which will be amortized over a weighted average period of approximately 9.1 years.

Our results of operations for the year ended December 31, 2022 included the operating results of the Lucky Lucky installed base, the amounts of which were *not* material. It is *not* practicable to provide pro forma statements of operations giving effect to the Lucky Lucky 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.

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,	
	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 4,171	$ 2,931
Intercompany Receivables	8	7
Prepaid expenses	44	32
Total current assets	4,223	2,970
Investment in subsidiaries	50,262	42,454
Other long-term assets	-	8
Total assets	$ 54,485	$ 45,432
Liabilities and Stockholders' Equity		
Current liabilities		
Intercompany payables	$ 5,124	$ 3,861
Total current liabilities	5,124	3,861
Total liabilities	5,124	3,861
Stockholders' equity:		
Common stock	378	369
Additional paid-in capital	406,436	392,161
Retained earnings	(353,125)	(344,889)
Accumulated other comprehensive loss	(4,328)	(6,070)
Total stockholders' equity	49,361	41,571
Total liabilities and stockholders' equity	$ 54,485	$ 45,432

PLAYAGS, INC.
(PARENT COMPANY ONLY)

CONDENSED STATEMENTS OF OPERATIONS
(in thousands)

	Year ended December 31,		
	2022	2021	2020
Revenue			
Intercompany revenue	$ -	$ -	$ -
Total Revenue	-	-	—
Operating expenses			
Selling, general and administrative	18	(15)	24
Total operating expenses	18	(15)	24
Loss from operations	(18)	15	(24)
Other expense (income)			
Equity in net loss of subsidiaries	(8,017)	(22,587)	(85,349)
Other (Expense) Income	-	—	(5)
Loss before income taxes	(8,035)	(22,572)	(85,378)
Income tax (expense) benefit	-	-	-
Net loss	(8,035)	(22,572)	(85,378)
Foreign currency translation adjustment	1,742	(984)	(2,678)
Total comprehensive loss	$ (6,293)	$ (23,556)	$ (88,056)

PLAYAGS, INC.
(PARENT COMPANY ONLY)

CONDENSED STATEMENTS OF CASH FLOWS
(in thousands, except per share data)

	Year ended December 31,		
	2022	2021	2020
Cash flows from operating activities			
Net loss	$ (8,035)	$ (22,572)	$ (85,378)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Equity income from subsidiaries	8,017	22,587	85,349
Changes in assets and liabilities that relate to operations:			
Prepaid expenses	(12)	—	—
Intercompany payable/receivable	1,262	2,447	64
Deposits and other assets LT	8	(5)	(1)
Net cash provided by (used in) operating activities	1,240	2,457	34
Cash flows from investing activities			
Distributions received from subsidiaries	201	906	560
Net cash provided by (used in) investing activities	201	906	560
Cash flows from financing activities			
Repurchase of shares	(201)	(906)	(560)
Proceeds from stock option exercise	-	—	158
Net cash (used in) provided by financing activities	(201)	(906)	(402)
Increase (decrease) in cash and cash equivalents	1,240	2,457	192
Cash and cash equivalents, beginning of period	2,931	474	282
Cash and cash equivalents, end of period	$ 4,171	$ 2,931	$ 474

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.

NOTE 3 - CASH FLOW STATEMENT SUPPLEMENTAL DISCLOSURES

The Parent Company charged $11.9 million and $14.6 million of stock-based compensation to additional paid-in capital during the years ended December 31, 2022 and 2021, respectively, the expense for which was contributed to the Parent Company's subsidiaries that employ the employee recipients of the share-based awards.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Tax-related valuation allowance	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
Year ended December 31, 2022	$ 62,233	$ (1,740)	$ -	$ (379)	$ 60,114
Year ended December 31, 2021	$ 55,006	$ 7,270	$ -	$ (43)	$ 62,233
Year ended December 31, 2020	$ 41,004	$ 13,924	$ -	$ 78	$ 55,006

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 9, 2023	By:	/s/ KIMO AKIONA
		Name:	Kimo Akiona
		Title:	Chief Financial Officer, Chief Accounting Officer and Treasurer, *(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.

Signature	**Title**	**Date**
/s/ DAVID LOPEZ David Lopez	*Chief Executive Officer, President and Director* *(Principal Executive Officer)*	March 9, 2023
/s/ KIMO AKIONA Kimo Akiona	*Chief Financial Officer, Chief Accounting Officer and Treasurer* *(Principal Financial and Accounting Officer)*	March 9, 2023
/s/ YVETTE E. LANDAU Yvette E. Landau	*Director*	March 9, 2023
/s/ ADAM CHIBIB Adam Chibib	*Director*	March 9, 2023
/s/ GEOFF FREEMAN Geoff Freeman	*Director*	March 9, 2023
/s/ ANNA MASSION Anna Massion	*Director*	March 9, 2023
/s/ DAVID FARAHI David Farahi	*Director*	March 9, 2023