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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the quarter ended March 31, 2024
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(s)	Name of each exchange on which registered
Common stock, $0.01 par value	AGS	New York Stock Exchange

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. Yes ☐ No ☐

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 May 6, 2024, there were 39,454,547 shares of the Registrant's common stock, $0.01 par value per share, outstanding.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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 elsewhere in this Quarterly Report on Form 10-Q as well as those discussed under “Item 1. Business” and “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year-ended December 31, 2023 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. Given the 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 Quarterly 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.

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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 40,362	$ 50,936
Restricted cash	220	244
Accounts receivable, net of allowance for credit losses $ 1,187 and $1,251, respectively	70,998	68,499
Inventories	36,547	36,081
Prepaid expenses	6,710	5,473
Deposits and other	3,576	4,145
Total current assets	158,413	165,378
Property and equipment, net	77,433	78,768
Goodwill	290,987	290,486
Intangible assets, net	118,320	123,436
Deferred tax asset	7,781	7,680
Operating lease assets, net	9,214	9,862
Other assets	4,540	4,728
Total assets	$ 666,688	$ 680,338
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 5,020	$ 5,406
Accrued liabilities	35,548	35,926
Current maturities of long-term debt	6,239	6,253
Total current liabilities	46,807	47,585
Long-term debt	532,254	547,499
Deferred tax liability, non-current	2,541	2,326
Operating lease liabilities, long-term	7,920	8,636
Other long-term liabilities	4,227	6,625
Total liabilities	593,749	612,671
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 March 31, 2024 and at December 31, 2023; and 39,378,705 and 38,947,674 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	393	389
Additional paid-in capital	419,841	417,689
Accumulated deficit	(350,850)	(353,044)
Accumulated other comprehensive income	3,555	2,633
Total stockholders' equity	72,939	67,667
Total liabilities and stockholders' equity	$ 666,688	$ 680,338

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

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

	Three Months Ended March 31,	
	2024	**2023**
Revenues		
Gaming operations	$ 62,060	$ 58,642
Equipment sales	33,913	24,533
Total revenues	95,973	83,175
Operating expenses		
Cost of gaming operations(1)	12,074	11,756
Cost of equipment sales(1)	15,656	12,333
Selling, general and administrative	18,110	17,205
Research and development	10,918	10,789
Write-downs and other (gains) charges	(24)	204
Depreciation and amortization	19,439	19,142
Total operating expenses	76,173	71,429
Income from operations	19,800	11,746
Other expense (income)		
Interest expense	13,980	13,704
Interest income	(685)	(357)
Loss on extinguishment and modification of debt	1,636	-
Other income	(137)	(78)
Income (loss) before income taxes	5,006	(1,523)
Income tax (expense) benefit	(661)	1,189
Net income (loss)	4,345	(334)
Foreign currency translation adjustment	922	3,413
Total comprehensive income	$ 5,267	$ 3,079
Basic and diluted income (loss) per common share:		
Basic	$ 0.11	$ (0.01)
Diluted	$ 0.10	$ (0.01)
Weighted average common shares outstanding:		
Basic	39,205	37,811
Diluted	39,346	37,811

(1) exclusive of depreciation and amortization

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

PLAYAGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(amounts in thousands)
(unaudited)

	Three Months Ended March 31,	
	2024	**2023**
Common stock		
Balance, beginning of period	$ 389	$ 378
Vesting of restricted stock	4	1
Balance of common stock, end of period	393	379
Additional paid-in capital		
Balance, beginning of period	417,689	406,436
Stock-based compensation expense	2,106	2,544
Vesting of restricted stock	(4)	(1)
Stock option exercises	50	-
Balance of additional paid-in capital, end of period	419,841	408,979
Accumulated deficit		
Balance, beginning of period	(353,044)	(353,125)
Net income (loss)	4,345	(334)
Restricted stock vesting and withholding	(2,151)	(27)
Balance of accumulated deficit, end of period	(350,850)	(353,486)
Accumulated other comprehensive income (loss)		
Balance, beginning of period	2,633	(4,328)
Foreign currency translation adjustment	922	3,413
Balance of accumulated other comprehensive income (loss), end of period	3,555	(915)
Total stockholders' equity	$ 72,939	$ 54,957

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

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

	Three Months Ended March 31,	
	2024	**2023**
Cash flows from operating activities		
Net income (loss)	$ 4,345	$ (334)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	19,439	19,142
Accretion of contract rights under development agreements and placement fees	1,576	1,545
Amortization of deferred loan costs and discount	597	628
Write-off of deferred loan costs and discount	742	-
Stock-based compensation expense	2,106	2,544
Provision for bad debts	137	10
(Gain) loss on disposition of long-lived assets	(44)	83
Impairment of assets	20	121
Benefit (expense) from deferred income tax	270	591
Changes in assets and liabilities related to operations:		
Accounts receivable	(2,357)	(4,393)
Inventories	1,025	(1,880)
Prepaid expenses	(1,230)	(2,286)
Deposits and other	592	(467)
Other assets, non-current	784	1,763
Accounts payable and accrued liabilities	(1,677)	(12,900)
Net cash provided by operating activities	26,325	4,167
Cash flows from investing activities		
Proceeds from payments on customer notes receivable	-	598
Software development and other expenditures	(5,852)	(4,973)
Proceeds from disposition of assets	12	11
Purchases of property and equipment	(9,432)	(8,739)
Net cash (used in) investing activities	(15,272)	(13,103)
Cash flows from financing activities		
Repayment of first lien credit facilities	(16,438)	(1,438)
Payment of financed placement fee obligations	(1,441)	(1,356)
Proceeds from stock option exercise	50	-
Payment of deferred loan costs	(5)	-
Payment of previous acquisition obligation	-	(55)
Payment on finance leases and other obligations	(2,177)	(504)
Repurchase of stock	(1,655)	(27)
Net cash (used in) financing activities	(21,666)	(3,380)
Effect of exchange rates on cash, cash equivalents and restricted cash	15	(7)
Net decrease in cash, cash equivalents and restricted cash	(10,598)	(12,323)
Cash, cash equivalents and restricted cash, beginning of period	51,180	37,911
Cash, cash equivalents and restricted cash, end of period	$ 40,582	$ 25,588
Supplemental cash flow information		
Non-cash investing and financing activities:		
Leased assets obtained in exchange for new operating lease liabilities	$ -	$ 882
Leased assets obtained in exchange for new finance lease liabilities	$ 84	$ 25
Property and equipment obtained in exchange for new other long-term liability	$ 392	$ -

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

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

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

Description of Business

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 card shufflers including our newly introduced card shuffler, "Pax S"; and Interactive Games ("Interactive"), which provides game content and access to our remote gaming server to real-money gaming ("RMG") online casino operators as well as social casino games available for desktop and mobile devices. 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 *Spectra UR43 Premium*, *Orion Starwall*, *Orion Curve Premium* and *Big Red* as well as cabinets available for sale or lease notably the Spectra *UR43,* Spectra *UR49C, 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 specialize in providing a Business-to-Business (*"B2B"*) game aggregation platform catering to the rapidly growing online RMG sector. Our remote gaming server empowers us to deliver an extensive library of games developed by our internal game development studios. Our catalog encompasses various game types, including slots, table games, and progressive technology. Our RMG solutions resonate with a diverse and widespread player base, positioning us as a trusted partner for operators seeking to thrive in the competitive global gaming landscape.

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 devices. 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 and other casino classics like video poker, blackjack, and bingo. Our apps also feature in-app tournaments, rumbles, VIP bonuses, and unique interactive challenges.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain disclosures required by generally accepted accounting principles ("GAAP") are omitted or condensed in these condensed consolidated financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) that are necessary for a fair statement of the Company's financial position, results of operations and cash flows for the interim periods have been made. The interim results reflected in these condensed consolidated financial statements are not necessarily indicative of results to be expected for the full fiscal year. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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

Principles of Consolidation

The accompanying condensed 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):

	Three Months Ended March 31,	
	2024	**2023**
EGM		
Gaming operations	$ 53,799	$ 52,413
Equipment sales	33,452	24,145
Total	$ 87,251	$ 76,558
Table Products		
Gaming operations	$ 4,105	$ 3,706
Equipment sales	461	388
Total	$ 4,566	$ 4,094
Interactive		
Gaming Operations	$ 4,156	$ 2,523
Total	$ 4,156	$ 2,523
Total Revenue	$ 95,973	$ 83,175

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 into 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.

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

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

Equipment Sales

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

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

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 any undelivered performance obligations is recorded as a contract liability. The balance of our contract liabilities was not material as of March 31, 2024 and December 31, 2023.

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

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.

For the period ended March 31, 2024, there was no material activity in allowance for credit losses.

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 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 March 31, 2024 and December 31, 2023, the value of raw material inventory was $29.9 million and $31.3 million, respectively. As of March 31, 2024 and December 31, 2023, the value of finished goods inventory was $6.6 million and $4.8 million, respectively. There was no work in process material as of March 31, 2024 and December 31, 2023.

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 can be measured independently of the cash flows of other assets and liabilities. This 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 are not expected 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 position.

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

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

Capitalized software development costs represent the Company's internal costs to develop gaming titles to utilize on the Company's gaming machines. Such costs are stated at cost and amortized over the estimated economic lives of the software. Software development costs are capitalized once technological feasibility has been established and are amortized when the software is available for general release. 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 written off 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 within the consolidated statements of operations.

On a quarterly basis, or more frequently if circumstances warrant, the Company compares the net book value of its capitalized software development costs 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*" ("ASC 820") 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 establishes 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 issues (Level 2 inputs). The following table presents the estimated fair value of our long-term debt as of March 31, 2024 and December 31, 2023 (in thousands):

	March 31, 2024		December 31, 2023	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term Debt	$ 550,247	$ 551,454	$ 566,754	$ 567,658

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.

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 consolidated 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.

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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.

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 other accumulated comprehensive income (loss) in stockholders' equity.

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 2023,* the Financial Accounting Standards Board (the "FASB") issued ASU *No. 2023-01*, Leases ("Topic *842"*): Common Control Arrangements. Upon the implementation of Topic *841,* the FASB Board has prioritized monitoring and assisting stakeholders by responding to technical accounting inquiries and proactively seeking feedback on issues that arose from such topic. The amendments within *2023-01* is a response to private company stakeholders concerns regarding the application of Topic *842* to related party arrangements between entities under common control. This update aims to improve current GAAP through clarification of accounting for leasehold improvements associated with common control leases. Further, the amendments within this update targets to provide investors, lenders, creditors, and other allocators of capital with financial information that better reflects the economics of transpiring transactions. We adopted the amendment in this current quarter, which did *not* have a material effect on our consolidated financial statements.

In *October 2023,* the FASB issued ASU *No. 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC 's Disclosure Update and Simplification Initiative.* ASU *No*. *2023-06* modifies disclosure requirements which consists of clarifications and technical corrections. The amendments in this update applies to all reporting entities, which aims to allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were *not* previously subjected to the SEC's requirements. Furthermore, these amendments aim to align codification requirements with the SEC's regulations. The effective date for each amendment within ASU *No*. *2023-06* is dependent on the date in which the SEC removes related disclosures from Regulation S-*X* or Regulation S-K. Early adoption is permitted. If by *June 30, 2027,* the SEC has *not* removed the related disclosures from Regulation S-*X* or Regulation S-K, the pending amendments will *not* become effective for any entity. The Company is currently evaluating the provisions of the amendments and the impact on its future disclosures, however, we do *not* anticipate the impact to be material.

In *November 2023,* the FASB issued ASU *No. 2023-07*, Segment Reporting ("Topic *280"*): Improvements to Reportable Segment Disclosures. Investors, lenders, creditors and other allocators of capital have observed the critical importance of segment information and its significance in assessing an entity's overall performance and potential future cash flows. The amendments within ASU *No. 2023-07* aim to improve reportable segment disclosure requirements by enhancing disclosures regarding significant segment expenses. These amendments are applicable to all public entities who are required to report segment information in accordance with Topic *280,* Segment Reporting. The amendments in this update are effective for fiscal years beginning after *December 15, 2023,* and interim periods within fiscal years beginning after *December 15, 2024.* Early adoption is permitted. The Company is currently evaluating the provisions of the amendments and the impact on its segment reports, however, we do *not* anticipate the impact to be material.

In *December 2023,* the FASB issued ASU *No. 2023-09*, Income Taxes ("Topic *740"*): Improvements to Income Tax Disclosures. The amendments within *No. 2023-09* addresses the requests of investors, lenders, creditors, and other allocators of capital for more transparency regarding income tax information primarily related to the rate reconciliation and income taxes paid information. Further amendments within this update also aim to improve the effectiveness of income tax disclosures. The amendments in this update apply to all entities that are subject to Topic *740,* Income Taxes. For public business entities, the amendments in this update are effective for annual periods beginning after *December 15, 2024.* The Company is currently evaluating the provisions of the amendments and the impact on its income tax disclosures, however, we do *not* anticipate the impact to be material.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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NOTE 2. PROPERTY AND EQUIPMENT

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

	March 31, 2024	December 31, 2023
Gaming equipment	$ 266,483	$ 259,396
Other property and equipment	25,611	25,056
Less: Accumulated depreciation	(214,661)	(205,684)
Total property and equipment, net	$ 77,433	$ 78,768

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 $10.1 million and $10.6 million for the three months ended March 31, 2024 and 2023, respectively.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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NOTE 3. GOODWILL AND INTANGIBLES

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

	Gross Carrying Amount			
	EGM	**Table Products**	**Interactive(1)**	**Total**
December 31, 2023	$281,435	$ 9,051	$ -	$ 290,486
Foreign currency adjustments	501	-	-	501
Balance at March 31, 2024	$281,936	$ 9,051	$ -	$ 290,987

(1) As of March 31, 2024, accumulated goodwill impairment charges for the Interactive segment taken prior to the fiscal year 2024 were $8.4 million.

Intangible assets consist of the following (in thousands):

		March 31, 2024			December 31, 2023		
	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	(14,794)	196	14,990	(14,779)	211
Customer relationships	5 - 12	223,158	(186,972)	36,186	222,690	(183,508)	39,182
Contract rights under development and placement fees	1 - 7	42,762	(31,694)	11,068	42,762	(30,118)	12,644
Gaming software and technology platforms	1 - 7	226,659	(173,685)	52,974	220,843	(167,869)	52,974
Intellectual property	10 - 12	21,845	(16,075)	5,770	21,845	(15,546)	6,299
Total intangible assets		$ 541,540	$ (423,220)	$ 118,320	$ 535,256	$ (411,820)	$ 123,436

Intangible assets are amortized over their respective estimated useful lives ranging from one to twelve years. Amortization expense related to intangible assets was $9.4 million and $8.5 million for the three months ended March 31, 2024 and 2023, respectively.

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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. Amounts paid against the placement fee agreements with payment terms greater than ninety days are disclosed in the financing section of the condensed consolidated statement of cash flows. Amounts paid for the placement fee agreements with the agreement terms less than ninety days, are disclosed in the Investing section of the condensed consolidated statement of cash flows.

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 condensed consolidated 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 $1.6 million and $1.5 million for the three months ended March 31, 2024 and 2023, respectively.

NOTE 4. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	March 31, 2024	December 31, 2023
Salary and payroll tax accrual	$ 12,926	$ 12,697
Taxes payable	4,327	3,337
Current portion of operating lease liability	2,605	2,595
License fee obligation	244	482
Placement fees payable	6,314	6,314
Deferred revenue	2,246	2,429
Accrued other	6,886	8,072
Total accrued liabilities	$ 35,548	$ 35,926

NOTE 5. LONG-TERM DEBT

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

	March 31, 2024		December 31, 2023	
First Lien Credit Facilities:				
Term loans, net of unamortized discount and deferred loan costs of $ 11.8 million at March 31, 2024 and $13.0 million at December 31, 2023; interest at SOFR, subject to a 0.75% floor plus 3.75% (at March 31, 2024) and 0.75% floor plus 4% (at December 31, 2023): 9.1% at March 31, 2024 and 9.5% at December 31, 2023.	$	536,746	$	551,935
Finance leases		1,747		1,817
Total debt		538,493		553,752
Less: Current portion		(6,239)		(6,253)
Long-term debt	$	532,254	$	547,499

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 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 the Company. These entities between the Borrower and the Company 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 to repay all amounts outstanding under the existing term loan facilities 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.

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, 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.

On February 5, 2024, the Borrower and Holdings, entered into an amendment (the “Seventh Amendment”) to amend that certain First Lien Credit Agreement, dated as of June 6, 2017 (as amended on December 6, 2017, as amended and restated on February 7, 2018, as amended and restated as of October 5, 2018, as amended as of August 30, 2019, as amended and restated on May 1, 2020, as amended as of August 4, 2021, as amended and restated as of February 15, 2022), among the Borrower, Holdings, the lenders party thereto from time to time, Jefferies Finance LLC, as administrative agent, and the other parties named therein (as so amended, the “Amended Credit Agreement”).

Among other things, the Seventh Amendment (i) removes the credit spread adjustment with respect to term loan borrowings in Term SOFR (as defined in the Amended Credit Agreement) and (ii) reduces the Applicable Margin (as defined in the Amended Credit Agreement) on the Borrower’s existing term loan to 3.75% for Term SOFR borrowings and 2.75% for ABR (as defined in the Amended Credit Agreement) borrowings. Additionally, in conjunction with entry into the Seventh Amendment, the Company elected to repay $15 million of its total debt outstanding.

An additional $1.6 million in loan costs including the write-off of deferred loan costs and third-party costs were incurred related to the Seventh Amendment. Given the composition of the lender group, the transaction was accounted for as a debt modification for existing lenders. As a result of the Seventh Amendment, approximately $1.6 million in costs were expensed and included in the loss on extinguishment and modification of debt.

As of March 31, 2024, 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.

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 March 31, 2024, we have 39,378,705 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, our 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. During the quarter ended June 30, 2023, the board approved extending this share buyback program to August 11, 2025. As of March 31, 2024, $44.5 million of the $50.0 million authorized by our board of directors is still available for repurchasing of the Company's shares of common stock.

NOTE 7. WRITE-DOWNS AND OTHER CHARGES

The condensed 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 *three* months ended March 31, 2024, the Company did not recognize any meaningful write-downs and other charges. During the *three* months ended March 31, 2023, the Company recognized $0.2 million in write-downs and other charges primarily related to the impairment of intangible assets (the Company used level *3* fair value inputs based on projected cash flows) and the disposal of long-lived assets.

NOTE 8. BASIC AND DILUTED INCOME (LOSS)

The Company computes net income (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 condensed consolidated statement of operations and comprehensive loss. Basic EPS is computed by dividing net income (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 income (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 (see Note 10. "Stock-Based Compensation").

	Three Months Ended March 31, 2024
Numerator:	
Net income	$ 4,345
Less: Net income attributable to participating securities	326
Net income attributable to common stock	$ **4,019**
Denominator:	
Weighted average of common shares outstanding, basic	39,205
Potential dilutive effect of stock options	141
Weighted average of common shares outstanding, diluted	39,346

Excluded from the calculation of diluted EPS for the three months ended March 31, 2024 were 1,027,242 restricted shares, subject to performance vesting conditions that have not been met yet. The earnings per share calculations for the three months ended March 31, 2024 include the dilutive effect for 140,798 stock options and 3,195,064 participating securities.

Excluded from the calculation of diluted EPS for the *three* months ended *March 31, 2023* were 1,221,370 restricted shares, subject to performance vesting conditions that have *not* been met yet, and 1,162,088 underwater stock options. Excluded from the calculation of diluted EPS for the *three* months ended *March 31, 2023* were 3,269,247 restricted shares because the Company reported a net loss in this period.

NOTE 9. BENEFIT PLANS

The Company has established a 401(k) plan (the “401(k) Plan”) for its employees. The 401(k) Plan allows employees to contribute a portion of their earnings, and the Company may match a percentage of the contributions on a discretionary basis. The expense associated with the 401(k) Plan for the three months ended March 31, 2024 and 2023 was $0.6 million and $0.7 million, respectively.

On April 28, 2014, our board of directors 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. However, remaining awards for issuance under this plan will not be issued, and awards granted by the Company in the future are expected to be from the 2018 Omnibus Incentive Plan (the "Omnibus Incentive Plan") only.

On January 16, 2018, our board of directors adopted and our stockholders approved 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, our board of directors approved an amendment to the Omnibus Incentive 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, our board of directors approved an amendment to the Omnibus Incentive 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 March 31, 2024, we had 3,798,582 shares available for issuance under the Omnibus Incentive Plan.

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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 and phantom stock units. These awards include time-based vesting awards as well as awards that include a combination of service and market conditions, as further described below.

We recognize stock-based compensation on a straight-line basis over the total requisite service period for the entire award for the time-based restricted stock units; for the awards with market conditions, we recognize the expense over the service period derived from the related valuation; for the time-based phantom stock units, we concurrently recognize compensation cost over the requisite service period for each separately-vesting tranche using the graded vesting method.

The following provides the total unrecognized stock-based compensation expense under all programs as of the following dates:

	March 31, 2024		March 31, 2023	
	Unrecognized Compensation Expense (in thousands)	**Expected Weighted Average Period to be Recognized (years)**	**Unrecognized Compensation Expense (in thousands)**	**Expected Weighted Average Period to be Recognized (years)**
Stock Options	-	-	-	-
Restricted Stock Units	2,231	2.3	4,977	2.2
Phantom Stock Units	7,535	2.0	9,222	2.1
Total	9,766	4.3	14,199	4.3

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 three months ended March 31, 2024 and three months ended March 31, 2023.

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 initial public offering does *not* qualify as a Change in Control as it relates to the vesting of stock options.

All other option awards, comprised of Tranche B and Tranche C, 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 487,922 Performance Options exercisable and outstanding.

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A summary of the changes in stock options outstanding during the three months ended March 31, 2024, is as follows:

	Number of Options
Options outstanding as of December 31, 2023	1,158,202
Granted	-
Exercised	7,773
Canceled or forfeited	-
Options outstanding as of March 31, 2024	1,150,429
Options exercisable as of March 31, 2024	1,150,429

Restricted Stock Units

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 or as a result of death or disability, any such unvested time-based awards shall become vested. In the event of a change in control, certain awards vest immediately and certain awards vest only upon termination within 12 months of the change in control event.

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 a specified number of consecutive trading days exceeds certain stock prices, subject to continued employment with the Company or its subsidiaries. The performance-based restricted stock units will be forfeited if the performance target is *not* achieved within *four* years of the grant date.

A summary of the changes in restricted units outstanding during the three months ended March 31, 2024, is as follows:

	Shares Outstanding
Restricted Stock Units Outstanding as of December 31, 2023	1,403,454
Granted	53,712
Vested	348,728
Canceled or forfeited	1,550
Restricted Stock Units Outstanding as of March 31, 2024	1,106,888

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 as a result of death or disability, any such unvested units shall become vested. In the event of a change in control, certain awards vest immediately and certain awards vest only upon termination within 12 months of the change in control event. The phantom stock units outstanding at *March 31, 2024* *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 awards 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 a specified number of trading days exceeds certain stock prices, subject to continued employment with the Company or its subsidiaries.

A summary of the changes in phantom stock units outstanding during the three months ended March 31, 2024 is as follows:

	Shares Outstanding
Phantom Stock Outstanding as of December 31, 2023	3,316,062
Granted	-
Vested	344,454
Canceled or forfeited	25,464
Phantom stock outstanding as of March 31, 2024	2,946,144

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NOTE 11. INCOME TAXES

The Company's effective income tax rate for the three months ended March 31, 2024, was an expense of 13.2%. The difference between the federal statutory rate of 21.0% and the Company's effective tax rate for the three months ended March 31, 2024, is primarily due to changes in our valuation allowance on deferred tax assets. The Company's effective income tax rate for the three months ended March 31, 2023, was a benefit of 78.1%. The difference between the federal statutory rate of 21.0% and the Company's effective tax rate for the three months ended March 31, 2023, is primarily due to changes in our valuation allowance on deferred tax assets and the expiration of the applicable statute of limitations for certain uncertain tax positions.

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.

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 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,* as amended (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,* as amended (the “Securities Act”), 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. Those motions were fully briefed as of *March 22, 2023.* On *March 23, 2023,* the Court decided the motion to temporarily stay discovery in favor of the defendants, holding that all discovery is stayed pending resolution of the motion for judgment on the pleadings. On *February 13, 2024,* the Court granted the motion for judgment on the pleadings and dismissed the securities class action in full with prejudice. On March 14, 2024, Plaintiff's filed a notice of appeal. The Company, Mr. Lopez, and Mr. Akiona intend to oppose the appeal and will file their opposition prior to the deadline of July 3, 2024 (which includes an automatic 30-day extension). The defendants believe all claims in the action are without merit, and will continue 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 the securities class action or the shareholder derivative 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 and local 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. A merits trial for this dispute has been rescheduled to *August 2024.*

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, 2023* would *not* exceed $2.9 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.

In *May 2023,* we obtained the initial results of an audit conducted by Servicio de Administracion Tributaria ("SAT") regarding the compliance of our EGMs imported into Mexico with the requirements of the North American Free Trade Agreement ("NAFTA"). SAT has concluded that EGMs we imported during certain periods do *not* comply with their documentation standards to demonstrate compliance with NAFTA and that therefore certain taxes were omitted when the machines were imported.

In *December 2023*, we entered into discussions with SAT and the Mexican taxpayer advocate, Procuraduría de la Defensa del Contribuyente, to reach an agreement with SAT regarding its final assessment which we expected to receive during these discussions. The discussions concluded in *January 2024* with *no* resolution of the matter and with *no* fixed amount of the potential assessment. In *February 2024,* SAT made an assessment of the omitted taxes together with interest, fines, and surcharges of approximately $10.1 million, which has been translated into US dollars at the quarter end exchange rate. We believe that the EGMs qualify under NAFTA and that the documentation we have provided to SAT has been sufficient to demonstrate this qualification. We also believe that SAT has *not* conducted its audit in compliance with Mexican law and regulations. Therefore, we have filed nullity petitions before the Federal Tax Court in Mexico to invalidate SAT's resolutions in this matter.

We have *not* accrued any amount related to this matter, as we cannot accurately estimate the potential loss within the range of up to $ 9.9 million, including the possibility of the full reduction of the assessment based on our petitions.

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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, 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 Earnings Before Interest, Taxes, Depreciation and Amortization ("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 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;
  - 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 three months ended March 31, 2024 and 2023 (amounts in thousands):

	Three Months Ended March 31,	
	2024	**2023**
Revenues by segment		
EGM	$ 87,251	$ 76,558
Table Products	4,566	4,094
Interactive	4,156	2,523
Total Revenues	95,973	83,175
Adjusted EBITDA by segment		
EGM	39,681	34,032
Table Products	2,406	2,251
Interactive	1,932	220
Subtotal	44,019	36,503
Write-downs and other:		
Disposal of long-lived assets	(44)	83
Impairment of long-lived assets	20	121
Depreciation and amortization	19,439	19,142
Interest expense, net of interest income and other	13,158	13,269
Loss on extinguishment and modification of debt	1,636	-
Other adjustments	429	413
Other non-cash charges	2,269	2,454
Non-cash stock-based compensation	2,106	2,544
Income (loss) before income taxes	$ 5,006	$ (1,523)

The Company’s 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.

NOTE 14. SUBSEQUENT EVENTS

On May 8, 2024, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Bingo Holdings I, LLC, a Delaware limited liability company (“Parent”), and Bingo Merger Sub, Inc., a Nevada corporation and a wholly owned subsidiary of Parent (“Merger Sub”), providing for, among other things, the merger of Merger Sub with and into the Company (the “Merger”) with the Company surviving the Merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of Brightstar Capital Partners.

Upon the closing of the Merger, each share of common stock, par value $ 0.01 per share of the Company issued and outstanding immediately prior to the effective time of the Merger (except for shares (A) held by the Company (including in the Company's treasury) or any direct or indirect wholly owned subsidiary of the Company; and (B) held by Parent, Merger Sub or any other direct or indirect wholly owned subsidiary of Parent, which will be cancelled and retired for no consideration, will automatically be canceled and converted into the right to receive $ 12.50 in cash.

Consummation of the Merger is subject to the satisfaction or waiver of customary closing conditions, including but not limited to: (i) the approval of the Merger by the Company's stockholders, (ii) expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (iii) absence of any legal requirement, order or injunction enjoining or otherwise prohibiting the consummation of the Merger and (iv) receipt of certain gaming regulatory approvals. The Merger is expected to be completed in the second half of calendar year 2025 and is subject to customary closing conditions, including the receipt of regulatory approvals, which include gaming regulatory approvals and gaming licenses, and approval by a majority of AGS stockholders.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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) 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 three months ended March 31, 2024, approximately 65% 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.

On May 8, 2024, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Bingo Holdings I, LLC, a Delaware limited liability company (“Parent”), and Bingo Merger Sub, Inc., a Nevada corporation and a wholly owned subsidiary of Parent (“Merger Sub”), providing for, among other things, the merger of Merger Sub with and into the Company (the “Merger”) with the Company surviving the Merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of Brightstar Capital Partners.

Upon the closing of the Merger, each share of common stock, par value $0.01 per share of the Company issued and outstanding immediately prior to the effective time of the Merger (except for shares (A) held by the Company (including in the Company’s treasury) or any direct or indirect wholly owned subsidiary of the Company; and (B) held by Parent, Merger Sub or any other direct or indirect wholly owned subsidiary of Parent, which will be cancelled and retired for no consideration, will automatically be canceled and converted into the right to receive $12.50 in cash.

Consummation of the Merger is subject to the satisfaction or waiver of customary closing conditions, including but not limited to: (i) the approval of the Merger by the Company’s stockholders, (ii) expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (iii) absence of any legal requirement, order or injunction enjoining or otherwise prohibiting the consummation of the Merger and (iv) receipt of certain gaming regulatory approvals. The Merger is expected to be completed in the second half of calendar year 2025 and is subject to customary closing conditions, including the receipt of regulatory approvals, which include gaming regulatory approvals and gaming licenses, and approval by a majority of AGS stockholders.

EGM Segment

EGMs constitute our largest segment, representing 91% of our revenue for the three months ended March 31, 2024. In 2024, 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* and the recent addition *Spectra UR43 Premium*. Also, our core cabinets that are available for sale and lease include the newly released *Spectra UR49C* and *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.

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 hold percentages 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 March 31, 2024, we had placed 5,410 table products domestically and internationally. Based on the number of products placed, we believe we are presently a leading supplier of table products to the gaming industry.

Our Table Products segment focuses on high margin recurring revenue generated by leases. Nearly all of the revenue we generate in this segment is recurring.

Interactive Segment

We specialize in providing a B2B game aggregation platform catering to the rapidly growing online RMG sector. Our remote gaming server empowers us to deliver an extensive library of games developed by our internal game development studios. Our catalog encompasses various game types, including slots, table games, and progressive technology. Our RMG solutions resonate with a diverse and widespread player base, positioning us as a trusted partner for operators seeking to thrive in the competitive global gaming landscape.

We also offer B2C free-to-play social casino apps that players across the globe can enjoy anytime online or on their mobile devices. 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 and other casino classics like video poker, blackjack, and bingo. Our apps also feature in-app tournaments, rumbles, VIP bonuses, and unique interactive challenges.

Key Drivers of Our Business

Our revenues are impacted by the following key factors:

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

Our expenses are impacted by the following key factors:

- fluctuations in the cost of labor relating to productivity;
- overtime and training;
- fluctuations in the price of components for gaming equipment;
- fluctuations in energy prices 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 expenses are primarily due to changes in employment and salaries and related fringe benefits.

Results of Operations

Three Months Ended March 31, 2024 compared to the Three Months Ended March 31, 2023

The following tables set forth certain selected condensed consolidated financial data for the three months ended March 31, 2024 and 2023 (in thousands):

	Three Months Ended March 31,		$	%
	2024	2023	Change	Change
Consolidated Statements of Operations:				
Revenues				
Gaming operations	$ 62,060	$ 58,642	$ 3,418	5.8%
Equipment sales	33,913	24,533	9,380	38.2%
Total revenues	95,973	83,175	12,798	15.4%
Operating expenses				
Cost of gaming operations	12,074	11,756	318	2.7%
Cost of equipment sales	15,656	12,333	3,323	26.9%
Selling, general and administrative	18,110	17,205	905	5.3%
Research and development	10,918	10,789	129	1.2%
Write-downs and other charges	(24)	204	(228)	(111.8)%
Depreciation and amortization	19,439	19,142	297	1.6%
Total operating expenses	76,173	71,429	4,744	6.6%
Income from operations	19,800	11,746	8,054	68.6%
Other expense (income)				
Interest expense	13,980	13,704	276	2.0%
Interest income	(685)	(357)	(328)	91.9%
Loss on extinguishment and modification of debt	1,636	-	1,636	100.0%
Other (expense) income	(137)	(78)	(59)	75.6%
Income (loss) before income taxes	5,006	(1,523)	6,529	(428.7)%
Income tax (expense) benefit	(661)	1,189	(1,850)	(155.6)%
Net income (loss)	$ 4,345	$ (334)	$ 4,679	(1400.9)%

Revenues

Gaming Operations.

Gaming operations revenue increased primarily due to an increase in our domestic Interactive segment, which increased by $1.6 million compared to the prior year. The increase in gaming operations revenue is also attributable to an increase in our EGM segment, which increased by $1.4 million compared to the prior year primarily due to the increase in domestic installed base by 236 units.

Equipment Sales.

The increase in equipment sales was primarily due to an increase of 320 EGMs sold year over year. We sold 1,441 EGM units during the three months ended March 31, 2024, compared to 1,121 EGM units in the prior year period.

Operating Expenses

Cost of gaming operations. The increase in the cost of gaming operations was primarily the result of increased field service and support due to increased activity, offset by decreased direct expenses and related costs compared to the prior year period. As a percentage of gaming operations revenue, costs of gaming operations was 19.5% for the three months ended March 31, 2024 compared to 20.0% for the prior year period.

Cost of equipment sales. The increase in cost of equipment sales is primarily attributable to the increase in the number of units sold compared to the prior year period. As a percentage of equipment sales revenue, costs of equipment sales was 46.2% for the three months ended March 31, 2024 compared to 50.3% for the prior year period, which fluctuated year over year primarily due to a change in the mix of products sold between periods.

Selling, general and administrative. The increase in selling, general and administrative expenses is primarily due to a $0.6 million increase in professional fees incurred in the current period, as well as due to a $0.6 million increase in salaries and benefits, offset by a $0.5 million decrease in non-cash stock-based compensation.

Research and development. The increase is primarily attributable to a $0.3 million increase in operational support costs to support our research and development resources, offset by $0.2 million decrease in salaries and benefits.

Write-downs and other charges. During the three months ended March 31, 2024, the Company did not recognize any meaningful write-downs and other charges. During the three months ended March 31, 2023, the Company recognized $0.2 million in write-downs and other charges primarily related to the impairment of intangible assets (the Company used level *3* fair value inputs based on projected cash flows) and the disposal of long-lived assets.

Depreciation and amortization. The increase was predominantly due to a $0.8 million increase in amortization, offset by a $0.5 million decrease in deprecation.

Other (expense) income

Interest expense. The increase in interest expense is predominantly attributable to an increased interest rate in the current period as compared to the prior year period. The increase was offset by lowered interest rate from repricing of term loan credit facility in the current quarter by entering into the Seventh Amendment. See Item 1."Financial Statements" Note 5."Long-Term Debt" for a detailed discussion regarding long-term debt.

Loss on extinguishment of debt. On February 5, 2024, in connection with entering into the Seventh Amendment, $1.6 million in loan costs related to third-party costs were expensed and included in the loss on extinguishment and modification of debt.

Other (expense) income. The fluctuation is 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 three months ended March 31, 2024, was an expense of 13.2%. The difference between the federal statutory rate of 21.0% and the Company's effective tax rate for the three months ended March 31, 2024, is primarily due to changes in our valuation allowance on deferred tax assets. The Company's effective income tax rate for the three months ended March 31, 2023, was a benefit of 78.1%. The difference between the federal statutory rate of 21.0% and the Company's effective tax rate for the three months ended March 31, 2023, is primarily due to changes in our valuation allowance on deferred tax assets and the expiration of 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 1. “Financial Statements” 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-Q because we believe such measure provides investors with additional information to measure our performance.

We believe that the presentation of each of the Adjusted Expenses is appropriate to provide additional information to investors about certain non-cash items that vary greatly and are difficult to predict. These Adjusted Expenses take into account non-cash stock compensation expense, acquisitions and integration related costs including restructuring and severance, initial and secondary public offering costs, legal and litigation expenses including settlement payments, new jurisdictions and regulatory licensing costs, non-cash charges on capitalized installation and delivery, non-cash charges and (gain) 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 loss and to deduct certain gains that are included in calculating net loss. 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

Three Months Ended March 31, 2024 compared to the Three Months Ended March 31, 2023

	Three Months Ended March 31,		$	%
(amounts in thousands, except unit data)	**2024**	**2023**	**Change**	**Change**
EGM segment revenues:				
Gaming operations	$ 53,799	$ 52,413	$ 1,386	2.6%
Equipment sales	33,452	24,145	9,307	38.5%
Total EGM revenues	87,251	76,558	10,693	14.0%
EGM segment expenses and adjusted expenses:				
Cost of gaming operations(1)	11,084	10,815	269	2.5%
Less: Adjustments(2)	692	877	(185)	(21.1)%
Adjusted cost of gaming operations	10,392	9,938	454	4.6%
Cost of equipment sales	15,521	12,227	3,294	26.9%
Selling, general and administrative	16,433	15,195	1,238	8.1%
Less: Adjustments(3)	1,666	2,152	(486)	(22.6)%
Adjusted cost of selling, general and administrative	14,767	13,043	1,724	13.2%
Research and development	9,063	9,409	(346)	(3.7)%
Less: Adjustments(4)	597	546	51	9.3%
Adjusted cost of research and development	8,466	8,863	(397)	(4.5)%
Accretion of placement fees	1,576	1,545	31	2.0%
EGM Adjusted EBITDA	$ 39,681	$ 34,032	$ 5,649	16.6%
EGM Business Segment Key Performance Indicators ("KPI's")				
EGM gaming operations:				
EGM installed base:				
Class II	11,190	11,244	(54)	(0.5)%
Class III	5,406	5,116	290	5.7%
Domestic installed base, end of period	16,596	16,360	236	1.4%
International installed base, end of period	6,061	6,248	(187)	(3.0)%
Total installed base, end of period	22,657	22,608	49	0.2%
EGM revenue per day ("RPD"):				
Domestic revenue per day	$ 32.49	$ 32.82	$ (0.33)	(1.0)%
International revenue per day	$ 9.70	$ 8.29	$ 1.41	17.0%
Total revenue per day	$ 26.38	$ 26.06	$ 0.32	1.2%
EGM equipment sales				
EGM units sold	1,441	1,121	320	28.5%
Average sales price ("ASP")	$ 20,626	$ 19,587	$ 1,039	5.3%

(1)Exclusive of depreciation and amortization.

(2)Adjustments to cost of gaming operations 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.

Gaming Operations Revenue

The increase in gaming operations revenue was primarily due to an increase of 236 domestic EGM units installed year over year. We installed 16,596 EGM units as of March 31, 2024, compared to 16,360 EGM units installed as of March 31, 2023.

Equipment Sales

The increase in equipment sales was primarily due to an increase of 320 EGMs sold year over year. We sold 1,441 EGM units during the three months ended March 31, 2024, compared to 1,121 EGM units in the prior year period .

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, restructuring and severance costs, as well as other costs. See Item 1. “Financial Statements” 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 an increase in the cost of equipment sales and an increase in operating expenses. EGM Adjusted EBITDA margin was 45.5% for the three months ended March 31, 2024 compared to 44.5% for the three months ended March 31, 2023.

Table Products

Three Months Ended March 31, 2024 compared to Three Months Ended March 31, 2023

	Three Months Ended March 31,		$	%
(amounts in thousands, except unit data)	**2024**	**2023**	**Change**	**Change**
Table Products segment revenues:				
Gaming operations	$ 4,105	$ 3,706	$ 399	10.8%
Equipment sales	461	388	73	18.8%
Total Table Products revenues	4,566	4,094	472	11.5%
Table Products segment expenses and adjusted expenses:				
Cost of gaming operations(1)	546	475	71	14.9%
Less: Adjustments(2)	77	118	(41)	(34.7)%
Adjusted cost of gaming operations	469	357	112	31.4%
Cost of equipment sales	135	106	29	27.4%
Selling, general and administrative	1,110	1,069	41	3.8%
Less: Adjustments(3)	107	116	(9)	(7.8)%
Adjusted cost of selling, general and administrative	1,003	953	50	5.2%
Research and development	569	440	129	29.3%
Less: Adjustments(4)	16	13	3	23.1%
Adjusted cost of research and development	553	427	126	29.5%
Table Products Adjusted EBITDA	$ 2,406	$ 2,251	$ 155	6.9%
Table Products unit information:				
Table products installed base, end of period	5,410	5,278	132	2.5%
Average monthly lease price	$ 249	$ 230	$ 19	8.3%

(1)Exclusive of depreciation and amortization.
(2)Adjustments to cost of gaming operation include non-cash charges on capitalized installation and delivery.
(3)Adjustments to selling, general and administrative expense include non-cash stock compensation expense, severance and restructuring, and other adjustments.
(4)Adjustments to research and development costs include non-cash stock compensation expense.

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 our growing installed base of our Pax S and Dex shufflers 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 our Pax S single-deck shufflers in the current period.

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, severance and restructuring, as well as other costs. See Item 1. “Financial Statements” Note 13. "Operating Segments" for further explanation of adjustments. The increase in Table Products Adjusted EBITDA is attributable to the increase in revenue as described above, offset by an increase in the cost of equipment sales and an increase in operating expenses.

Interactive

Three Months Ended March 31, 2024 compared to Three Months Ended March 31, 2023

	Three Months Ended March 31,		$	%
(amounts in thousands)	**2024**	**2023**	**Change**	**Change**
Interactive segment revenue:				
Gaming Operations	$ 4,156	$ 2,523	$ 1,633	64.7%
Total Interactive revenue	4,156	2,523	1,633	64.7%
Interactive segment expenses and adjusted expenses:				
Cost of gaming operations(1)	444	466	(22)	(4.7)%
Selling, general and administrative	567	941	(374)	(39.7)%
Less: Adjustments(2)	41	33	8	24.2%
Adjusted cost of selling, general and administrative	526	908	(382)	(42.1)%
Research and development	1,286	940	346	36.8%
Less: Adjustments(3)	32	11	21	190.9%
Adjusted cost of research and development	1,254	929	325	35.0%
Interactive Adjusted EBITDA	$ 1,932	$ 220	$ 1,712	778.2%

(1)Exclusive of depreciation and amortization.
(2)Adjustments to selling, general and administrative expense include non-cash stock compensation expense and severance and restructuring expenses.
(3)Adjustments to research and development costs include non-cash stock compensation expense.

Gaming Operations 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 1. “Financial Statements” Note 13. "Operating Segments" for further explanation of adjustments. The increase in Interactive Adjusted EBITDA is primarily attributable to the increase in revenues as described above.

TOTAL ADJUSTED EBITDA RECONCILIATION TO NET INCOME (LOSS)

We have provided total Adjusted EBITDA in this Form 10-Q 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 (loss). 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 loss and to deduct certain gains that are included in calculating net income (loss). 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 income (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 income (loss) to total Adjusted EBITDA (amounts in thousands):

Three Months Ended March 31, 2024 compared to the Three Months Ended March 31, 2023

	Three Months Ended March 31,		$	%
	2024	**2023**	**Change**	**Change**
Net income (loss)	$ 4,345	(334)	$ 4,679	(1400.9)%
Income tax benefit (expense)	661	(1,189)	1,850	(155.6)%
Depreciation and amortization	19,439	19,142	297	1.6%
Interest expense, net of interest income and other	13,158	13,269	(111)	(0.8)%
Loss on extinguishment of debt (1)	1,636	-	1,636	100.0%
Write-downs and other (2)	(24)	204	(228)	(111.8)%
Other adjustments(3)	429	413	16	3.9%
Other non-cash charges(4)	2,269	2,454	(185)	(7.5)%
Non-cash stock-based compensation(5)	2,106	2,544	(438)	(17.2)%
Total Adjusted EBITDA	$ 44,019	$ 36,503	$ 7,516	20.6%

(1) Loss on extinguishment and modification of debt primarily relates to third party costs incurred in connection with entering into the Seventh Amendment.

(2) Write-downs and other include items related to loss on disposal or impairment of long-lived assets.

(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.

LIQUIDITY AND CAPITAL RESOURCES

We expect that primary ongoing liquidity requirements for the next twelve months after the condensed consolidated 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 into 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 March 31, 2024, the Company had $40.4 million in cash and cash equivalents and $40.0 million available to draw under its revolving credit facility. As of March 31, 2024, 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 condensed consolidated 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 March 31, 2024, there were no required financial covenants for our debt instruments.

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

	Three Months Ended March 31,		
	2024	2023	Change
Cash Flow Information:			
Net cash provided by operating activities	$ 26,325	$ 4,167	$ 22,158
Net cash (used in) investing activities	(15,272)	(13,103)	(2,169)
Net cash (used in) financing activities	(21,666)	(3,380)	(18,286)
Effect of exchange rates on cash, cash equivalents and restricted cash	15	(7)	22
Net decrease in cash, cash equivalents and restricted cash	$ (10,598)	$ (12,323)	$ 1,725

Operating activities

The increase in cash provided by operating activities is attributable to a $17.3 million decrease in use for assets and liabilities that relate to operations, the increase is further supported by an improvement in our net income (loss) adjusted for non-cash expenses that increased by $4.9 million.

Investing activities

The increase in cash used in investing activities was primarily due to a $0.9 million increase in software development and other expenditures, $0.7 million increase in purchases of property and plant, as well as a $0.6 million decrease in collections on a customer note receivable.

Financing activities

The increase in cash used in financing activities of $18.3 million is primarily attributable to the reduction of debt principal due to the voluntary payment of $15.0 million in the current period and payment of other financed obligations in the current period.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES

A description of our critical accounting policies can be found in “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, 2023. There were no material changes to our policies during the three months ended March 31, 2024.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See related disclosure at Item 1. “Financial Statements” Note 1. “Description of the Business and Summary of Significant Accounting Policies” of this Quarterly Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. 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) under the Securities Exchange Act of 1934) as of March 31, 2024. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure information is recorded, processed, summarized and reported within the periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no changes in our internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f), that occurred as of the end of the fiscal quarter covered by this report, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by Item 1. "Legal Proceedings" is incorporated herein by reference from Note 12. “Commitments and Contingencies” of our notes to the condensed consolidated financial statements in this Report.

ITEM 1A. RISK FACTORS

"Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2023 (the "Annual Report") includes a discussion of our risk factors. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. The Company is supplementing its risk factors described in the Annual Report and the following risk factor should be read in conjunction with the other risk factors disclosed in the Annual Report.

Risks Related to the Proposed Merger

The announcement and pendency of our agreement to be acquired by Brightstar Capital Partners may have an adverse effect on our business, operating results and our stock price, and may result in the loss of employees, customers, suppliers, and other business partners.

On May 8, 2024, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Bingo Holdings I, LLC, a Delaware limited liability company (“Parent”), and Bingo Merger Sub, Inc., a Nevada corporation and a wholly owned subsidiary of Parent (“Merger Sub”), providing for, among other things, the merger of Merger Sub with and into the Company (the “Merger”) with the Company surviving the Merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of Brightstar Capital Partners. We are subject to risks in connection with the announcement and pendency of the Merger, including, but not limited to, the following:

- *market reaction to the announcement of the Merger;*
- *changes in our business, operations, financial position, and prospects;*
- *market assessments of the likelihood that the Merger will be consummated;*
- *the amount of cash offered per share will not be increased to account for positive changes in our business, assets, liabilities, prospects, outlook, financial condition, or results of operations during the pendency of the Merger, including any successful execution of our current strategy as an independent company or in the event of any change in the market price of, analyst estimates of, or projections relating to, our common stock;*
- *potential adverse effects on our relationships with our current customers, suppliers and other business; partners, or those with which we are seeking to establish business relationships, due to uncertainties about the Merger;*
- *we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the Merger, and many of these fees and costs are payable by us regardless of whether the Merger is consummated;*
- *potential adverse effects on our ability to attract, recruit, retain, and motivate current and prospective employees who may be uncertain about their future roles and relationships with us following the completion of the Merger, and the possibility that our employees could lose productivity as a result of uncertainty regarding their employment following the Merger;*
- *the pendency and outcome of the legal proceedings that have been or may be instituted against us, our directors, executive officers and others relating to the transactions contemplated by the Merger Agreement; and*
- *the possibility of disruption to our business, including increased costs and diversion of management time and resources that could otherwise have been devoted to other opportunities that may have been beneficial to us.*

While the Merger is pending, we are subject to contractual restrictions that could harm our business, operating results and our stock price.

The Merger Agreement includes restrictions on the conduct of our business prior to the completion of the Merger, generally requiring us to conduct our businesses in the ordinary course in all material respects, and restricting us from taking certain specified actions absent Brightstar Capital Partners’ prior written consent. We may find that these and other obligations in the Merger Agreement may delay or prevent us from or limit our ability to respond effectively to competitive pressures, industry developments and future business opportunities that may arise during such period, even if our management and board of directors think they may be advisable. These restrictions could adversely impact our business, operating results and our stock price and our perceived acquisition value, regardless of whether the Merger is completed.

The failure to complete the Merger may adversely affect our business and our stock price.

The Merger with Brightstar Capital Partners is subject to a number of conditions, including, among other things, (i) the Company’s receipt of the approval of the Company’s stockholders representing a majority of the voting power of the outstanding shares; (ii) expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976; (iii) absence of any legal requirement, order or injunction enjoining or otherwise prohibiting the consummation of the Merger; and (iv) receipt of certain gaming regulatory approvals. There can be no assurance that these conditions to the completion of the Merger will be satisfied, or that the Merger will be completed on the proposed terms, within the expected timeframe or at all. If the Merger is not completed, we may be subject to negative publicity or be negatively perceived by the investment or business communities and our stock price could fall to the extent that our current stock price reflects an assumption that the Merger will be completed. Furthermore, if the Merger is not completed, we may suffer other consequences that could adversely affect our business and results of our operations.

The Merger Agreement with Brightstar Capital Partners limits our ability to pursue alternative transactions which could deter a third party from proposing an alternative transaction.

The Merger Agreement contains provisions that, subject to certain exceptions, limit our ability to (i) solicit, initiate, or knowingly facilitate, or knowingly encourage (including by way of furnishing non-public information) any acquisition proposal or any inquiries regarding, or the making of any proposal or offer that constitutes, or would reasonably be expected to lead to, an acquisition proposal, or (ii) engage in, continue or otherwise participate in any discussions or negotiations regarding, or furnish or afford access to any other person any non-public information relating to the Company or its business, properties, assets, books, records or other non-public information, among other prohibitions. It is possible that these or other provisions in the Merger Agreement might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of our outstanding common stock from considering or proposing an acquisition or might result in a potential competing acquirer proposing to pay a lower per share price to acquire our common stock than it might otherwise have proposed to pay.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a). 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).
10.1	Amendment to that certain First Lien Credit Agreement (incorporated by reference to exhibit 10.13 to PlayAGS, Inc's Annual Report on Form 10-K filed on March 6, 2024).
*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.
*32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	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 contains in Exhibit 101)

* Filed herewith.

SIGNATURES

Pursuant to the requirements 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:	May 9, 2024	By:	/s/ KIMO AKIONA
		Name:	Kimo Akiona
		Title:	Chief Financial Officer, Chief Accounting Officer and Treasurer (Principal Financial and Accounting Officer)

Exhibit 31.1

Certification of Principal Executive Officer
of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, David Lopez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PlayAGS, INC.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2024

/s/ DAVID LOPEZ
David Lopez
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Principal Financial Officer
of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, Kimo Akiona, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PlayAGS, INC.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2024

/s/ KIMO AKIONA
Kimo Akiona
Chief Financial Officer, Chief Accounting Officer
and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 32.1

Certification of Principal Executive Officer and Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of PlayAGS, INC. (the "Company") for the quarter ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David Lopez, as President and Chief Executive Officer of the Company, and Kimo Akiona, as Chief Financial Officer, Chief Accounting Officer and Treasurer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2024

/s/ DAVID LOPEZ
David Lopez
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2024

/s/ KIMO AKIONA
Kimo Akiona
Chief Financial Officer, Chief Accounting Officer
and Treasurer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to PlayAGS, Inc. and will be retained by PlayAGS, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.