

EVERI

Everi Holdings Inc.

2018 ANNUAL REPORT

The Annual Meeting of Stockholders
of Everi Holdings Inc. will be held:
Tuesday, May 21, 2019

Everi Holdings Inc. Corporate Headquarters
7250 S. Tenaya Way, Ste. 100
Las Vegas, NV 89113



NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS

To the Holders of Common Stock of Everi Holdings Inc.:

The 2019 Annual Meeting of Stockholders of Everi Holdings Inc. (the “Annual Meeting”) will be held as follows:

When: 9:00 a.m. Pacific Time, Tuesday, May 21, 2019

Where: Everi Holdings Inc. Corporate Headquarters
7250 S. Tenaya Way, Suite 100
Las Vegas, Nevada 89113

The purpose of the Annual Meeting is to consider and take action on the following proposals:

1. To elect the three Class II director nominees named in this Proxy Statement;
2. To vote on an advisory (non-binding) resolution to approve the compensation of our named executive officers as shown in this Proxy Statement;
3. To ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019; and
4. To transact such other business as may properly be brought before the Annual Meeting or any adjournment or postponement thereof.

Holders of record of Everi Holdings Inc. common stock at the close of business on April 5, 2019 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

YOUR PROXY IS IMPORTANT TO ASSURE A QUORUM AT THE ANNUAL MEETING. You are urgently requested to submit the enclosed proxy by telephone or through the Internet in accordance with the instructions provided to you. You may also date, sign and mail the Proxy Card in the postage-paid envelope that is provided. Your proxy is revocable in accordance with the procedures set forth in the accompanying Proxy Statement.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on May 21, 2019.

Our Proxy Statement is attached. Financial and other information concerning Everi Holdings Inc. is contained in our Annual Report to Stockholders for the fiscal year ended December 31, 2018 (the “2018 Annual Report”). A complete set of proxy materials relating to our Annual Meeting is available on the Internet. These materials, consisting of the Notice of 2019 Annual Meeting of Stockholders, Proxy Statement, Proxy Card and 2018 Annual Report are available and may be viewed at www.proxyvote.com.

By Order of the Board of Directors,

/s/ Michael D. Rumbolz

Michael D. Rumbolz
President and Chief Executive Officer
April 22, 2019

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PROXY STATEMENT SUMMARY

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of Everi Holdings Inc. for use at the 2019 Annual Meeting of Stockholders and at any adjournment or postponement thereof. On or about April 22, 2019, we will begin distributing to each stockholder entitled to vote at the 2019 Annual Meeting of Stockholders this Proxy Statement, a proxy card or voting instruction form and our 2018 Annual Report to stockholders. Shares represented by a properly executed proxy will be voted in accordance with the instructions provided by the stockholder. This summary highlights information contained elsewhere in this Proxy Statement, however, it does not contain all of the information you should consider. You should read the entire Proxy Statement before casting your vote.

General Information

Date and Time: Tuesday, May 21, 2019
9:00 a.m. Pacific Time

Record Date: April 5, 2019

Place: Everi Holdings Inc. Corporate Headquarters
7250 S. Tenaya Way, Suite 100
Las Vegas, Nevada 89113

Voting:

Stockholders of record as of April 5, 2019 may cast their votes in any of the following ways:



Internet

Visit www.proxyvote.com. You will need the 16-digit number included in your proxy card, voting instruction form or notice.



Phone

Call 1-800-690-6903 or the number on your voting instruction form. You will need the 16-digit number included in your proxy card, voting instruction form or notice.



Mail

Send your completed and signed proxy card or voting instruction form to the address on your proxy card or voting instruction form.



In Person

If you plan to attend the meeting in person, you will need to bring a government-issued picture ID and proof of ownership of Everi Holdings Inc. common stock as of the record date.

Voting Matters and Board Recommendations

Proposal	Description	Board Recommendation	Page (for more detail)
1	Election of three Class II director nominees named in this Proxy Statement.	FOR the Board's nominees	10
2	Approval, on an advisory basis, of the compensation of our named executive officers.	FOR	26
3	Ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019.	FOR	52

Stockholders will also transact any other business that properly comes before the meeting.

Qualifications of Our Class II Director Nominees:

- ✓ Messrs. Judge and Congemi are independent.
- ✓ All three nominees have at least 5+ years of service on our Board of Directors.
- ✓ All three nominees are highly-qualified individuals with a diverse set of skills, background and experience.

Name	Age	Director Since	Principal (or Most Recent) Occupation	Current Committees
Geoffrey P. Judge	65	2006	Former Partner at iNovia Capital, a manager of early stage venture capital funds	<ul style="list-style-type: none"> • Audit Committee • Compensation Committee (Chair) • Nominating and Corporate Governance ("Nom Gov") Committee
Michael D. Rumbolz	65	2010	President and Chief Executive Officer of the Company	None
Ronald V. Congemi	72	2013	Member of the Philadelphia Federal Reserve's Payments Advisory Council	<ul style="list-style-type: none"> • Audit Committee • Compensation Committee • Nom Gov Committee

Corporate Governance Highlights

WHAT WE DO	WHAT WE DON'T DO
<input checked="" type="checkbox"/> 86% Independent Directors	X No Related Party Transactions
<input checked="" type="checkbox"/> Entirely Independent Committees	X No Poison Pill
<input checked="" type="checkbox"/> Independent Chairman	X No Pledging of Our Securities
<input checked="" type="checkbox"/> Separate Chairman and Chief Executive Officer Roles	X No Hedging of Our Securities
<input checked="" type="checkbox"/> “Plurality-Plus” Voting for Directors (mandatory resignation policy for nominees who fail to receive an affirmative majority of votes cast)	
<input checked="" type="checkbox"/> Audit Committee Financial Experts	
<input checked="" type="checkbox"/> Regular Executive Sessions of Independent Directors	
<input checked="" type="checkbox"/> Limitations on Outside Board Service	
<input checked="" type="checkbox"/> All Directors Attended at Least 75% of Board and Respective Committee Meetings	
<input checked="" type="checkbox"/> Annual Board and Committee Self-Evaluations	
<input checked="" type="checkbox"/> Stock Ownership Guidelines for Officers and Directors	
<input checked="" type="checkbox"/> Executive Compensation Based on Pay-for-Performance Philosophy	
<input checked="" type="checkbox"/> Annual Say on Pay Advisory Vote	
<input checked="" type="checkbox"/> Cash and Equity Compensation Clawback Policy	
<input checked="" type="checkbox"/> Double-Trigger for Change in Control Severance Payments	
<input checked="" type="checkbox"/> Executive Succession Planning Process	
<input checked="" type="checkbox"/> Code of Business Conduct, Standards and Ethics (and related training)	



PROXY STATEMENT

QUESTIONS AND ANSWERS

Why am I receiving these proxy materials?

The Board of Directors (the “Board”) of Everi Holdings Inc., a Delaware corporation (the “Company”), is furnishing these proxy materials to you in connection with the Company’s 2019 Annual Meeting of Stockholders (the “Annual Meeting”). The Annual Meeting will be held on Tuesday, May 21, 2019, at the Company’s Corporate Headquarters located at 7250 S. Tenaya Way, Suite 100, Las Vegas, Nevada 89113 beginning at 9:00 a.m. Pacific Time. You are invited to attend the Annual Meeting and are entitled and requested to vote on the proposals outlined in this proxy statement (“Proxy Statement”).

This Proxy Statement is dated April 22, 2019 and is first being mailed to stockholders on or about April 22, 2019.

What proposals will be voted on at the Annual Meeting, and what are the recommendations of the Board?

There are three proposals scheduled to be voted on at the Annual Meeting. The proposals, and the Board’s voting recommendations with respect to such proposals, are as follows:

Proposal	Board’s Voting Recommendations
1 Election of three Class II directors to serve until the Company’s 2022 annual meeting of stockholders.	FOR the Board’s nominees
2 Approval, on an advisory basis, of the compensation of our named executive officers as shown in this Proxy Statement.	FOR
3 Ratification of the appointment of BDO USA, LLP as the Company’s independent registered public accounting firm (“independent auditors”) for the fiscal year ending December 31, 2019.	FOR

Management does not know of any matters to be presented at the Annual Meeting other than those set forth in this Proxy Statement and in the Notice of 2019 Annual Meeting of Stockholders accompanying this Proxy Statement. If other matters should properly come before the Annual Meeting, the proxy holders will vote on such matters in accordance with their best judgment. Our stockholders have no dissenter’s or appraisal rights in connection with any of the proposals to be presented at the Annual Meeting.

What is the record date and what does it mean?

The record date for the Annual Meeting is April 5, 2019 (the “Record Date”). Only holders of shares of the Company’s common stock, par value \$0.001 per share (“Common Stock”), at the close of business on the Record Date are entitled to receive notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. At the close of business on April 5, 2019, there were approximately 71,070,548 shares of Common Stock outstanding and entitled to vote.

Shares held in treasury by the Company are not treated as being issued or outstanding for purposes of determining the number of shares of Common Stock entitled to vote.

How many votes do I have?

Each holder of shares of Common Stock is entitled to one vote for each share of Common Stock owned as of the Record Date.

Who is a “stockholder of record,” and who is a “beneficial holder”?

You are a stockholder of record if your shares of our Common Stock are registered directly in your own name with our transfer agent, Broadridge Financial Solutions, Inc. (“Broadridge”), as of the Record Date. You are a beneficial owner if a bank, brokerage firm, trustee or other agent (each, a “nominee”) holds your stock. This is often called ownership in “street name” because your name does not appear in the records of our transfer agent. If your shares are held in street name, you will receive instructions from the holder of record. You must follow the instructions of the holder of record in order for your shares to be voted. Internet voting also will be offered to stockholders owning shares through certain banks and brokers. If your shares are not registered directly in your own name and you plan to vote your shares in person at the Annual Meeting, you should contact your nominee to obtain a legal proxy and bring it to the Annual Meeting in order to vote. For additional requirements to attend the Annual Meeting, see the information provided on page 1.

Who votes shares held in “street name”?

If you are a beneficial owner of shares held in “street name” by a nominee or other holder of record, and you do not give that nominee or other record holder specific instructions as to how to vote those shares, under the rules of the New York Stock Exchange (the “NYSE”), your nominee or other record holder may exercise discretionary authority to vote your shares only on routine proposals, which, in this Proxy Statement, includes only the ratification of the appointment of the Company’s independent auditors (Proposal 3). Without your specific instructions, however, your nominee or other record holder cannot vote your shares on non-routine proposals, which, in this Proxy Statement, include Proposals 1 and 2. Accordingly, if you do not instruct your nominee or other record holder how to vote with respect to Proposals 1 and 2, no votes will be cast on your behalf with respect to such proposals (this is referred to as a “broker non-vote”). Your nominee or other record holder, however, will continue to have discretion to vote any uninstructed shares on Proposal 3. If you hold your shares in street name, please refer to the information forwarded by your nominee or other holder of record for procedures on voting your shares or revoking or changing your proxy. We encourage you to provide instructions to your nominee or other holder of record regarding the voting of your shares.

What constitutes a quorum?

The presence at the Annual Meeting, in person or represented by proxy, of a majority of the shares of Common Stock outstanding and entitled to vote on the Record Date will constitute a quorum permitting the proposals described herein to be acted upon at the Annual Meeting. Abstentions and broker non-votes are counted as present and are, therefore, included for purposes of determining whether a quorum of shares of Common Stock is present at the Annual Meeting.

What is the voting requirement to approve each of the proposals?

Voting Item	Board Recommendation	Voting Standard	Treatment of Abstentions & Broker Non-Votes
Election of Directors	For	Plurality ⁽¹⁾ of Votes Represented at the Meeting and Entitled to Vote Thereon	No effect on the outcome of the election ⁽²⁾
Say on Pay ⁽³⁾	For	Majority ⁽⁴⁾ of Votes Represented at the Meeting and Entitled to Vote Thereon	Broker Non-Votes: No effect on the outcome of this proposal Abstentions: Same effect as a vote “Against” this proposal
Auditor Ratification	For	Majority ⁽⁴⁾ of Votes Represented at the Meeting and Entitled to Vote Thereon	Broker Non-Votes: No effect on the outcome of this proposal Abstentions: Same effect as a vote “Against” this proposal

(1) Director nominees who receive the highest number of shares voted “For” his or her election are elected.

(2) If a nominee in an uncontested election (such as this one) does not receive the vote of at least the majority of the votes cast, it may trigger the Company’s guideline regarding majority voting for directors. Votes to withhold authority are included in the total number of votes cast with respect to the director’s election. Full details of the guideline are set out in our Corporate Governance Guidelines, which are publicly available at the Corporate Governance section of the “Investors” page on our website at ir.everi.com/investor-relations/corporate-governance/governance-documents.

- (3) Although this vote is advisory and non-binding on our Board, the Board and the Compensation Committee will consider the voting results, along with other relevant factors, in connection with their ongoing evaluation of our compensation program.
- (4) Number of shares voted “For” exceeds 50% of the number of votes cast.

All valid proxies received prior to the Annual Meeting will be exercised. All shares represented by a proxy will be voted, and where a proxy specifies a stockholder’s choice with respect to any matter to be acted upon, the shares will be voted in accordance with that specification. If you are a stockholder of record and sign and return your proxy card or vote electronically without making any specific selections, then your shares will be voted in accordance with the recommendations of the proxy holders on all matters presented in this Proxy Statement and as the proxy holders may determine in their discretion regarding any other matters properly presented for a vote at the Annual Meeting.

How do I vote my shares?

You can either attend the Annual Meeting and vote in person or give a proxy to be voted at the Annual Meeting. A proxy may be given in one of the following three ways:

- electronically by using the Internet;
- over the telephone by calling a toll-free number; or
- by mailing the enclosed proxy card.

Specific instructions for stockholders who wish to use the Internet or telephone voting procedures are set forth on the enclosed proxy card. If your shares are held in street name through a nominee or other holder of record, you will receive instructions from the nominee or other record holder that you must follow in order to have your shares voted.

How are the proxy card votes counted?

If the accompanying proxy card is properly completed, signed and returned to us, and not subsequently revoked, it will be voted as directed by you. If the proxy card is submitted, but voting instructions are not provided, the proxy will be voted: (i) “For” each of the director nominees; (ii) “For” the advisory approval of the compensation of our named executive officers; and (iii) “For” the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019.

Can I change my vote after submitting my proxy?

You can change your vote at any time before your proxy is exercised at the Annual Meeting. You may do so in one of the following four ways:

- submitting another proxy card bearing a later date;
- sending a written notice revoking your proxy to the **Corporate Secretary of the Company at 7250 South Tenaya Way, Suite 100, Las Vegas, Nevada 89113, or via e-mail to secretary@everi.com**;
- submitting new voting instructions via telephone or the Internet (if initially able to vote in that manner);
or
- attending the Annual Meeting and voting in person.

If you hold your shares in “street name” through a nominee or other holder of record and you have instructed the nominee or other holder of record to vote your shares, you must follow the directions received from the nominee or other holder of record to change those instructions. Please refer to the information sent by your nominee or other holder of record for procedures on revoking or changing your proxy.

Who is paying for this proxy solicitation?

This proxy solicitation is being made by the Company. The Company will bear the cost of soliciting proxies, including the cost of preparing, assembling, printing and mailing this Proxy Statement. The Company also will reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. In addition, proxies may be solicited by certain of the Company's directors, officers and regular employees, either personally, by telephone, facsimile or e-mail. None of such persons will receive any additional compensation for their services.

How can I find out the voting results?

The Company will report the voting results in a Current Report on Form 8-K to be filed with the Securities and Exchange Commission ("SEC") within four business days after the end of the Annual Meeting.

How do I receive electronic access to proxy materials for future annual meetings?

Stockholders can elect to view future proxy statements and annual reports over the Internet instead of receiving paper copies, which results in cost savings for the Company and benefits the environment. If you are a stockholder of record and would like to receive future proxy materials electronically, you can elect this option by following the instructions provided when you vote your proxy over the Internet at www.proxyvote.com. If you choose to view future proxy statements and annual reports over the Internet, you will receive an e-mail notification next year with instructions containing the Internet address of those materials. Your choice to view future proxy statements and annual reports over the Internet will remain in effect until you contact either your nominee or other holder of record or the Company to rescind your instructions. You do not have to elect Internet access each year.

If your shares of Common Stock are registered in the name of a brokerage firm, you still may be eligible to vote your shares of Common Stock electronically over the Internet. A large number of brokerage firms are participating in the Broadridge online program, which provides eligible stockholders who receive a paper copy of this Proxy Statement the opportunity to vote via the Internet. If your brokerage firm is participating in Broadridge's program, your proxy materials will provide instructions for voting online. If your proxy materials do not reference Internet information, please complete and return your voting instruction form.

What should I do if I receive more than one notice of internet availability or more than one set of proxy materials?

There are circumstances under which you may receive multiple copies of the notice of internet availability, proxy materials, proxy cards or voting instruction form. For example, if you hold your shares in more than one brokerage account, you may receive separate notices for each such brokerage account. In addition, if you are a stockholder of record and your shares are registered in more than one name, you may receive more than one notice. Please authorize your proxy in accordance with the instructions of each notice separately, since each one represents different shares that you own.

What is "householding"?

The SEC has adopted rules that permit companies and intermediaries (such as brokers) to satisfy delivery requirements for annual reports and proxy statements with respect to two or more stockholders sharing the same address by delivering a single annual report or proxy statement addressed to those stockholders. This process, which is commonly referred to as "householding," provides extra convenience for stockholders, cost savings for companies and benefits the environment. Brokers with account holders who are stockholders of the Company may be householding the Company's proxy materials. Once you have received notice from your broker that it will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate annual report or proxy statement, or if you are receiving multiple copies thereof and wish to receive only one, please notify your broker or notify the Company by sending a written request to the **Corporate Secretary of the Company at 7250 South Tenaya Way, Suite 100, Las Vegas, Nevada 89113, or via e-mail to secretary@everi.com, or by calling (702) 855-3000**. The Company, if contacted, will undertake to promptly deliver the requested materials.

When are stockholder proposals due for the 2020 Annual Meeting of Stockholders?

Stockholder proposals may be included in our proxy materials for an annual meeting so long as they are provided to us on a timely basis and satisfy certain other conditions established by the SEC, including specifically under Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). To be timely, a proposal to be included in our proxy statement must be received at our principal executive offices, addressed to our Corporate Secretary of the Company, not less than 120 calendar days before the date our proxy statement was released to stockholders in connection with the previous year’s annual meeting. Accordingly, for a stockholder proposal to be included in our proxy materials for our 2020 Annual Meeting of Stockholders, the proposal must be received at our principal executive offices, addressed to our Corporate Secretary of the Company, not later than the close of business on December 24, 2019.

Subject to certain exceptions, stockholder business that is not intended for inclusion in our proxy materials may be brought before an annual meeting so long as notice of the proposal as specified by, and subject to the conditions set forth in, our Bylaws, is received at our principal executive offices, addressed to our Corporate Secretary of the Company, not earlier than the close of business on the 120th day, nor later than the close of business on the 90th day, prior to the first anniversary of the date of the preceding year’s annual meeting. For our 2020 Annual Meeting of Stockholders, proper notice of business that is not intended for inclusion in our proxy statement must be received no earlier than the close of business on January 22, 2020, nor later than the close of business on February 21, 2020.

A stockholder’s notice to the Corporate Secretary of the Company must set forth as to each matter the stockholder proposes to bring before the annual meeting:

- **Director Nomination:** all information relating to such proposed nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act and Rule 14a-4(d) thereunder (including such person’s written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and
- **Stockholder Proposals:** a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made.

Each stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made must also include (a) the name and address of such stockholder, as they appear on the Company’s books, and of such beneficial owner, (b) the class and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner, and (c) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of the proposal, at least the percentage of the Company’s voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the Company’s voting shares to elect such nominee or nominees.

2018 Performance Highlights

Throughout 2018, we executed on key initiatives, which led to consistent improvement in our financial performance. For the full year, revenue increased by 14.3% to approximately \$469.5 million, net cash provided by operating activities increased by approximately \$198.0 million, and our free cash flow increased by 78% to approximately \$24.8 million. The strong growth that was experienced in revenue for the full year was entirely organic in nature, and it reflects the tremendous success that we are achieving as a result of the investments that we have made in improving and expanding our product portfolio over the last several years.

The results achieved for the fiscal year ended December 31, 2018 represent a return to profitability for the Company, with a reported full-year net income of approximately \$12.4 million and net income in each quarter. This was the first full year of profitability since the acquisition of the Games business in late 2014. Profitability was achieved primarily as a result of the increase in year-over-year revenues of approximately \$36.8 million, or 17%, for the Games segment, and \$22.0 million, or 12%, for the FinTech segment.

Key financial highlights for 2018:

Diluted Earnings per Share of \$0.17
Games segment record unit sales of 4,513 units
Growth in same store transactions and total dollars processed all four quarters in 2018, reaching 17 consecutive quarters
Completion of a repricing of the \$820 million Term Loan Facility in May 2018, resulting in approximately \$4 million in interest savings over the first twelve months following the repricing

Key business highlights for 2018:

Games: British Columbia Lottery Corporation selected our TournEvent® system as its slot tournament system of choice for casinos in the province
Games: Extended agreement with the New York Lottery to provide their Video Gaming Central System for an additional 2-year period
FinTech: Extended cash access services contract with Penn National Gaming, the nation's largest regional operator with 40 properties in 18 jurisdictions throughout the United States
FinTech: Extended FinTech Central Credit agreement with Caesars Entertainment Corporation

For more information on our 2018 results and other related financial measures, we refer you to our 2018 Annual Report. We look forward to continuing to execute on all aspects of our business strategy and believe we will continue to be successful in delivering long-term value and strong total returns to our stockholders.

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Proxy Statement contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. From time to time, we also provide forward-looking statements in other materials we release to the public, as well as oral forward-looking statements. We have tried, wherever possible, to identify such statements by using words such as “goal,” “target,” “future,” “estimate,” “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “project,” “may,” “should,” “will,” “likely,” “will likely result,” “will continue,” “forecast,” “observe,” “strategy,” and other words and terms of similar meaning. Forward-looking statements include, but are not limited to, statements regarding our ability to execute on all aspects of our business strategy and our ability to deliver long-term value and strong total returns to our stockholders. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions.

PROPOSAL 1

ELECTION OF THREE CLASS II DIRECTORS

(Item No. 1 on the Proxy Card)

Our Certificate of Incorporation provides that the number of directors that shall constitute the Board shall be exclusively fixed by resolutions adopted by a majority of the authorized directors constituting the Board. The Company's Bylaws state that the number of directors of the Company shall be fixed in accordance with the Company's certificate of incorporation as then in effect. The authorized number of directors of the Company is currently set at seven. Our Certificate of Incorporation and Bylaws provide that the Board shall be divided into three classes constituting the entire Board. The members of each class of directors serve staggered three-year terms. Proxies cannot be voted for a greater number of persons than the number of nominees named in this Proxy Statement.

Currently, the Board is composed of the following seven members:

Class	Directors	Term Commencement	Term Expiration
I	E. Miles Kilburn and Eileen F. Raney	2018 Annual Meeting of Stockholders	2021 Annual Meeting of Stockholders
II	Geoffrey P. Judge, Michael D. Rumbolz and Ronald V. Congemi	2016 Annual Meeting of Stockholders	2019 Annual Meeting of Stockholders
III	Linster W. Fox and Maureen T. Mullarkey ⁽¹⁾	2017 Annual Meeting of Stockholders	2020 Annual Meeting of Stockholders

(1) Ms. Mullarkey's term of office began on March 7, 2018, when she was appointed to the Board.

Upon the recommendation of the Nom Gov Committee of the Board, the Board has nominated Geoffrey P. Judge, Michael D. Rumbolz and Ronald V. Congemi, who are currently Class II Directors of the Company, for reelection as Class II Directors of the Company. If reelected, each will serve a three-year term until the 2022 Annual Meeting of Stockholders and until his or her successor is each duly elected and qualified or until his or her earlier resignation or removal. Messrs. Judge, Rumbolz and Congemi have consented, if reelected as Class II Directors of the Company, to serve until their respective terms expire. The Board believes that Messrs. Judge, Rumbolz and Congemi will serve if elected, but if a nominee should become unavailable to serve as a director, and if the Board designates a substitute nominee, the person or persons named as proxy in the enclosed form of proxy may vote for a substitute nominee recommended by the Nom Gov Committee and approved by the Board.

Information Concerning the Director Nominees

Information regarding the business experience of our nominees for election as Class II Directors is provided below, as well as a description of the skills and qualifications that are desirable in light of our business and structure and led to the conclusion that each nominee should serve as a director.

Geoffrey P. Judge

Age 65
Independent
Director since 2006

Geoffrey P. Judge was a Partner at iNovia Capital, a manager of early stage venture capital funds, from 2010 to 2016. He has been an active private equity investor since 2002. From 2003 to 2005, he was an investor in and the Chief Operating Officer of Preclick, a digital photography software firm. In 2002, he was the Chief Operating Officer of Media Solution Services, Inc., a provider of credit card billing insert media. From 1997 to 2002, Mr. Judge was a co-founder and Senior Vice President and General Manager of the media division of 24/7 Real Media. From 1995 to 1997, he was a Vice President of Marketing for iMarket, Inc., a software company. From 1985 to 1994, Mr. Judge was a Vice President and General Manager in the credit card division of American Express.

Skills and Qualifications: Mr. Judge is valuable to our Board due to his extensive knowledge of the Company's business and his experience in the financial services and payments industries.

Michael D. Rumbolz

Age 65
Director since 2010

Michael D. Rumbolz has served as our President and Chief Executive Officer since May 2016, having previously served as our Interim President and Chief Executive Officer since February 2016 and previously as an independent member of our Board since 2010 until his February 2016 appointment to the Interim President and Chief Executive Officer position. From 2008 to 2010, Mr. Rumbolz served as a consultant to the Company advising on various strategic, product development, and customer relations matters following the Company's acquisition of Cash Systems, Inc., a provider of cash access services to the gaming industry, in 2008. Mr. Rumbolz served as Chairman and Chief Executive Officer of Cash Systems, Inc. from January 2005 until August 2008. Mr. Rumbolz is the former Vice Chairman of the Board of Casino Data Systems, was the President and Chief Executive Officer of Anchor Gaming, was the Director of Development for Circus Circus Enterprises (later Mandalay Bay Group) and was the President of Casino Windsor at the time of its opening in Windsor, Ontario. Mr. Rumbolz also has provided various consulting services and held various public and private sector employment positions in the gaming industry, including serving as Member and Chairman of the Nevada Gaming Control Board from January 1985 to December 1988. In addition, Mr. Rumbolz is the former Chief Deputy Attorney General of the State of Nevada. Mr. Rumbolz currently serves as Chairman of the Board of Directors of Employers Holdings, Inc. (NYSE: EIG), a holding company whose subsidiaries are engaged in the commercial property and casualty industry. In addition, Mr. Rumbolz currently serves as a member of the Board of Directors of VICI Properties Inc. (NYSE: VICI) and Seminole Hard Rock Entertainment, LLC.

Skills and Qualifications: Mr. Rumbolz's vast experience in and knowledge of the highly regulated gaming industry, both as an operator and as a regulator, as well as his experience in the cash access business and skills gained from previous and current public and private board service are valuable to our Company and our Board.

Ronald V. Congemi

Age 72
Independent
Director since 2013

Ronald V. Congemi is an active member of the Philadelphia Federal Reserve's Payments Advisory Council and served as a member of the Board of Directors of Clearent LLC, a merchant processing company, from 2007 to 2015, and as a consultant to the Acxsys Corporation of Canada, the operating arm of the Interac debit network of Canada from 2009 to 2011. He was also a paid advisor to the Gerson Lehrman Group, a global advisory firm. Mr. Congemi previously served as the Chief Executive Officer of First Data's Debit Services Group from 2004 until his retirement in 2009. Mr. Congemi also served as Senior Vice President of Concord EFS, Inc., a payment and network services company (which was acquired by First Data Corporation in February 2004), and Concord's Network Services Group from 2001 to 2004. Mr. Congemi founded Star Systems, Inc., an ATM and Personal Identification Number, or PIN, debit network in the United States, and served as its President and Chief Executive Officer from 1984 to 2001.

Skills and Qualifications: Mr. Congemi is valuable to our Board due to his extensive management experience in the payments industry.

THE BOARD UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE “FOR” THE ELECTION TO THE BOARD OF THE NOMINEES NAMED ABOVE.

Directors Whose Terms Will Expire in Future Years

Each of the Company’s directors listed below will continue in office for the remainder of his or her term and until a successor is duly elected and qualified or until his or her earlier resignation or removal. Information regarding the business experience, skills and qualifications, and directorships, of each such director is provided below.

Class I Directors Whose Terms Will Expire in 2021

E. Miles Kilburn

Age 56
Independent
Director since 2005

E. Miles Kilburn currently serves as Chairman of the Board. Mr. Kilburn is the co-founder and a partner of Mosaik Partners, LLC, a venture capital firm focused on financial and commerce enabling technology he founded in 2012. He has been a private investor focused on the electronic payments sector since June 2004. Prior to that, Mr. Kilburn was Executive Vice President and Chief Strategy Officer of Concord EFS, Inc., a payment and network services company (which was acquired by First Data Corporation in February 2004), from 2003 to 2004, and Senior Vice President of Business Strategy and Corporate Development from 2001 to 2003. He served as Chief Executive Officer of Primary Payment Systems, Inc. (now Early Warning Services, LLC), a subsidiary of Concord EFS, Inc., from 2002 to 2003, and Chief Financial Officer from 1997 to 1999. From 1995 to 2001, Mr. Kilburn served in various roles at Star Systems, Inc., ultimately as Group Executive Vice President and Chief Financial Officer.

Skills and Qualifications: Mr. Kilburn has valuable knowledge and skills in management due to his experience in investment and financial technology and payments industries, as well as his status as an “audit committee financial expert.”

Eileen F. Raney

Age 69
Independent
Director since 2016

Eileen F. Raney, from January 2011 to November 2013, served as a member of the Board and a member of the Audit, Compensation and Governance Committees of the Board of SHFL entertainment, Inc., a global gaming supplier that was acquired by Bally Technologies, Inc. in November 2013. In 2018, Ms. Raney completed her certification as a NACD Board Leadership Fellow. Ms. Raney has been a member of the Advisory Board for the University of Nevada-Las Vegas Libraries since 2010, and a member of the Advisory Board of Fino Consulting since June 2015. She served on the Board of the University Medical Center of Southern Nevada from 2014 to 2017, as Vice Chair of the Board of Governors and as Chair of both the Strategy Committee and the Audit and Finance Committee. From April 2013 to April 2015, she also served as a member of the Board and Finance Committee of the Board of Nevada Health Centers, a federally qualified health center in Nevada. From 1988 to 2007, Ms. Raney held numerous positions with Deloitte & Touche USA, LLP, where she was hired as a Director in 1988 and made Principal in 1990. Her last position prior to retirement was National Managing Principal, Research & Development and Member, Deloitte & Touche USA Executive Committee, from 2003 to 2007. She was a member of the Deloitte Board of Directors from 2000 to 2003 while serving as the Human Capital E-Business Leader. She also held the positions of Global Leader, Integrated Health Group from 1996 to 2000; and Western Regional Leader and National Co-Leader, Integrated Health Group from 1988 to 1996.

Skills and Qualifications: Ms. Raney is valuable to our Board due to her experience in the gaming industry, as well as her financial skills and status as an “audit committee financial expert.”

Class III Directors Whose Term Will Expire in 2020

Linster W. Fox

Age 70
Independent
Director since 2016

Linster W. Fox is retired and previously served as Executive Vice President, Chief Financial Officer and Secretary of SHFL entertainment, Inc., a global gaming supplier, from 2009 up until the company's acquisition by Bally Technologies, Inc. in November 2013. He served on the Executive Advisory Board of the Lee Business School at the University of Nevada-Las Vegas from 2015 to 2016, served as interim Chief Financial Officer of Vincotech in 2009 and as Executive Vice President, Chief Financial Officer and Secretary of Cherokee International Corp. from 2005 to 2009. He has also served in a variety of executive roles over the course of 18 years at Anacomp, Inc., including Executive Vice President and Chief Financial Officer and as a member of the company's Board of Directors. He began his career as an accountant at PricewaterhouseCoopers LLC, is a Certified Public Accountant and has a B.S.B.A. from Georgetown University in Washington, D.C.

Skills and Qualifications: Mr. Fox's experience in the gaming industry, as well as his financial background and status as an "audit committee financial expert" are valuable to our Board.

Maureen T. Mullarkey

Age 59
Independent
Director since 2018

Maureen T. Mullarkey retired in 2007 as Executive Vice President and Chief Financial Officer of International Game Technology (currently known as International Game Technology PLC), a leading supplier of gaming equipment and technology, a position Ms. Mullarkey held from 1998 to 2007. She served in a variety of financial and executive management positions in her 18 years with the company. Ms. Mullarkey has served since 2014 as a director of PNM Resources, Inc. (NYSE: PNM), a holding company with two regulated utilities providing electricity and electric services in the State of New Mexico and Texas. Ms. Mullarkey previously served as a director of NV Energy, Inc. from 2008 to 2013 when the company was sold to Mid-American Energy Holdings Company, a subsidiary of Berkshire Hathaway, Inc. Ms. Mullarkey served as Entrepreneur in Residence with The Nevada Institute of Renewable Energy Commercialization from 2009 to 2011. Ms. Mullarkey has a B.S. from the University of Texas and an M.B.A. from the University of Nevada-Las Vegas.

Skills and Qualifications: Ms. Mullarkey provides valuable knowledge and skills to our Board due to her experience in the gaming industry, as well as her financial skills and status as an "audit committee financial expert."

BOARD AND CORPORATE GOVERNANCE MATTERS

Corporate Governance Philosophy

The business and affairs of the Company are managed under the direction of the Board in accordance with the Delaware General Corporation Law, as implemented by the Company’s Certificate of Incorporation and Bylaws. The role of the Board is to effectively oversee the affairs of the Company for the benefit of its stockholders and other constituencies. The Board strives to ensure the success and continuity of business through the selection of qualified management. It is also responsible for reviewing the Company’s compliance programs so that the Company’s activities are conducted in a responsible and ethical manner. The Company is committed to having sound corporate governance principles. Highlights of our corporate governance structure and policies include:

WHAT WE DO	WHAT WE DON’T DO
<input checked="" type="checkbox"/> 86% Independent Directors. Six of our seven directors have been determined by us to be “independent” as defined by the SEC and NYSE listing standards, which the Board has adopted as our standards.	<input checked="" type="checkbox"/> No Related Party Transactions. For fiscal year 2018, we did not have any related party transactions.
<input checked="" type="checkbox"/> “Plurality-Plus” Voting for Directors. Director nominees are elected by the highest number of shares cast “For” a director (mandatory resignation policy for nominees who fail to receive an affirmative majority of votes cast).	<input checked="" type="checkbox"/> No Poison Pill. We do not have a “poison pill” or stockholder rights plan.
<input checked="" type="checkbox"/> Independent Chairman. Our Chairman of the Board is an independent director, which we believe ensures a greater role for the non-employee directors in setting agendas and establishing priorities and procedures for the work of the Board, as well as enables the independent directors to raise issues and concerns for Board consideration without immediately involving management.	<input checked="" type="checkbox"/> No Pledging of Our Securities. Our officers and directors are prohibited from pledging our stock to secure loans of any type.
<input checked="" type="checkbox"/> Separate Chairman and Chief Executive Officer Roles. Our Board believes the separation of these roles promotes the balance between the Board’s independent authority to oversee our business and determine long-term strategy and the Chief Executive Officer’s implementation and execution with his management team of our strategic direction and oversight of the day-to-day operations and performance of the Company.	<input checked="" type="checkbox"/> No Hedging of Our Securities. Our officers and directors are prohibited from engaging in any hedging or other speculative trading in our stock.
<input checked="" type="checkbox"/> Entirely Independent Committees. All of the members of our Audit, Compensation, and Nom Gov Committees are independent.	
<input checked="" type="checkbox"/> Audit Committee Financial Experts. Four of the six members of our Audit Committee qualify as an “audit committee financial expert” as defined by the SEC. The remaining two members qualify as “financially literate.”	
<input checked="" type="checkbox"/> Regular Executive Sessions of Independent Directors. Our independent directors regularly meet in executive session without management’s participation.	
<input checked="" type="checkbox"/> Limitations on Outside Board Service. Our directors may not serve on more than three public company boards without the approval of our Nom Gov Committee.	
<input checked="" type="checkbox"/> All Directors Attended at Least 75% of Board and Respective Committee Meetings. Each director attended at least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings held by all Committees of the Board on which he or she serves held during 2018.	

Annual Board and Committee Self-Evaluations. Our Board and Committee members conduct self-evaluations at least annually to determine whether the Board and its Committees are functioning effectively.

Executive Succession Planning Process. Our Board oversees Chief Executive Officer and senior management succession planning, which is reviewed at least annually.

Code of Business Conduct, Standards and Ethics (and related training). We have adopted a Code of Business Conduct, Standards and Ethics for our non-employee directors and all employees and provide training on compliance.

Code of Business Conduct, Standards and Ethics and Corporate Governance Guidelines

We have adopted a Code of Business Conduct, Standards and Ethics for our non-employee directors and all employees (including officers) that is designed to qualify as a “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The Code of Business Conduct, Standards and Ethics is available on our website at ir.everi.com/investor-relations/corporate-governance/governance-documents. To the extent required by law, any amendments to, or waivers from, any provision of the Code of Business Conduct, Standards and Ethics will be promptly disclosed to the public. To the extent permitted by such legal requirements, we intend to make such public disclosure by posting the relevant material on our website within four business days following the date of the amendment or waiver in accordance with SEC rules. We have also adopted Corporate Governance Guidelines to assist the Board in the exercise of its responsibilities.

Whistleblower Hotline

Procedures for (i) the receipt, retention and treatment of complaints regarding improper or questionable accounting internal controls or auditing matters or practices, and (ii) the confidential, anonymous submission of such complaints are set forth in the Company’s Code of Business Conduct, Standards and Ethics. In order to facilitate the submission of such complaints, we have implemented a secure whistleblower hotline and website. The whistleblower hotline and website are operated by an independent service provider and are available for the anonymous submission of complaints. The Code of Business Conduct, Standards and Ethics is available on our website at ir.everi.com/investor-relations/corporate-governance/governance-documents.

Policies Related to Equity Ownership

Equity ownership. On February 25, 2016, the Board adopted a Policy on Equity Ownership (the “Equity Ownership Policy”) for its named executive officers, other executive officers and non-employee directors, which provides that such persons shall, within five years of the later of: (i) February 25, 2016; and (ii) the date such person first becomes subject to this policy, own shares of the Company’s Common Stock with a certain value as detailed in this Proxy Statement. At December 31, 2018, all current named executive officers, other executive officers, and non-employee directors either met the ownership guidelines or were within the five-year phase-in period. For more information on the Equity Ownership Policy, see “Executive Compensation — Compensation Discussion and Analysis — Additional Compensation Policies and Practices — Equity Ownership Policy.”

Clawback. In February 2016, the Board adopted an Incentive Compensation Clawback Policy (the “Clawback Policy”). Pursuant to the Company’s Clawback Policy, in the event of a restatement of the Company’s financial results due to the misconduct of any employee, the Board or, if so designated by the Board, the Compensation Committee of the Board, is authorized to take action to recoup all or part of any incentive compensation received by a Section 16 or executive officer of the Company. In determining whether to take action to recoup any incentive compensation received by a Section 16 or executive officer of the Company, the Board or, if so designated, the Compensation Committee of the Board, will take into consideration whether the Section 16 or executive officer engaged in the misconduct or was in a position, including in a supervisory role, to have been able to have reasonably prevented the misconduct that caused the restatement. For more information on the Clawback Policy, see “Executive Compensation — Compensation Discussion and Analysis — Additional Compensation Policies and Practices — Clawback Policy” and our website at ir.everi.com/investor-relations/corporate-governance/governance-documents.

No hedging. We do not believe our executive officers or directors should speculate or hedge their interests in our Common Stock. Our Insider Trading Policy therefore prohibits them from making short sales of our Common Stock or from purchasing or selling puts, calls or other derivative securities involving our stock.

No pledging. Our Insider Trading Policy prohibits our executive officers and directors from pledging our Common Stock.

Access to Corporate Governance Policies

Stockholders may access the Board Committee charters, our Code of Business Conduct, Standards and Ethics, our Corporate Governance Guidelines and Clawback Policy at the Corporate Governance section of the “Investors” page on our website at ir.everi.com/investor-relations/corporate-governance/governance-documents. Copies of our Board Committee charters, Code of Business Conduct, Standards and Ethics, Corporate Governance Guidelines and Clawback Policy will be provided to any stockholder upon written request to the **Corporate Secretary, Everi Holdings Inc., 7250 South Tenaya Way, Suite 100, Las Vegas, Nevada 89113, or via e-mail to secretary@everi.com.**

Board Leadership Structure

Our Board recognizes that one of its key responsibilities is to evaluate and determine its optimal leadership structure so as to provide independent oversight of management. Our Board is chaired by Mr. Kilburn, one of our independent directors. Mr. Kilburn’s service as Chairman enhances the Board’s independent oversight of management, while continuing to provide the effective leadership necessary for our Chairman. From his 14-year tenure as a member of our Board, Mr. Kilburn has acquired a deep knowledge of our history and culture as well as the issues, opportunities and challenges facing our business.

Currently, we separate the roles and responsibilities of the Chief Executive Officer and Chairman of the Board in recognition of the differences between the two roles and to promote the balance between the Board’s independent authority to oversee our business and determine long-term strategy and the Chief Executive Officer’s implementation and execution with his management team of our strategic direction and oversight of the day-to-day operations and performance of the Company. The Chairman of the Board:

- ✓ As the current Presiding Director, generally presides at meetings of the Board (including all executive sessions);
- ✓ Serves as the liaison between the Chief Executive Officer and the independent and non-employee directors;
- ✓ Establishes the agenda and presides at executive sessions of the independent and non-employee directors;
- ✓ Generally, approves information provided to the Board; and
- ✓ In conjunction with the Compensation Committee, reviews and approves corporate goals and objectives relevant to the Chief Executive Officer’s compensation, evaluates the Chief Executive Officer’s compensation based upon such evaluation, and communicates with the Chief Executive Officer regarding the foregoing.

Board Role in Risk Oversight

Our Board is responsible for oversight of our risk assessment process. The Board’s role in the Company’s risk oversight process includes receiving regular reports from members of our management team with respect to material risks that the Company faces, including, but not limited to: operational, financial, legal and regulatory, cybersecurity, strategic and reputational risks. The Board, or the applicable Committee of the Board, receives these reports from members of our management team to enable it to identify material risks and assess management’s risk management and mitigation strategies.

In connection with the respective Committee charters, our Audit Committee:

- ✓ assesses risks relating to the Company’s financial statements and cybersecurity matters, including information technology risks (inclusive of but not limited to data privacy and security issues); and
- ✓ oversees both the Company’s external and internal audit functions and oversees the Company’s compliance with applicable laws and regulations.

Our Compensation Committee:

- ✓ oversees the management of risks relating to the Company's executive compensation plans and arrangements.

Our Nom Gov Committee:

- ✓ reviews, no less than annually, the independence of our Board and potential conflicts of interest concerning our Board and senior executives.

While each Committee is responsible for evaluating certain risks and overseeing the management of such risks, our entire Board is regularly informed through Committee reports about such risks and mitigation strategies.

Executive Sessions of Non-Employee Directors

Pursuant to our Corporate Governance Guidelines and the NYSE listing standards, in order to promote open discussion among non-employee directors, our non-employee directors regularly meet in executive session without management participation. Our non-employee directors designate one non-employee director to serve for a one-year term as the Presiding Director to chair the Board's executive sessions. The executive sessions occur after each regularly scheduled meeting of the entire Board and at such other times that the non-employee directors deem necessary or appropriate. These sessions are presided over by the Chairman of the Board who is currently the designated Presiding Director.

Board Meetings and Annual Meeting of Stockholders Attendance

During fiscal year 2018, our Board held 14 meetings. Each director attended at least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings held by all Committees of the Board on which he or she serves, in each case held during 2018. The Company encourages, but does not require, its Board members to attend annual meetings of stockholders. All of the Company's then-current Board members attended the Company's 2018 Annual Meeting of Stockholders, in person or via teleconference.

Director Independence

Our Corporate Governance Guidelines provide that a majority of our directors serving on our Board must be independent as required by the listing standards of the NYSE.

We define "independent director" by reference to the rules, regulations and listing qualifications of the NYSE. In general, a director is deemed independent if the director has no relationship to us that may interfere with the exercise of the director's independence from management and our Company. Our Board, after broadly considering all relevant facts and circumstances regarding the past and current relationships, if any, of each director with the Company, has affirmatively determined that all of the Company's non-employee directors, Messrs. Kilburn, Judge, Fox and Congemi and Mses. Raney and Mullarkey, are independent directors, and determined that there are no material relationships that would interfere with the exercise of such directors' independent from management and our Company.

Regular Board and Committee Evaluations

The Board and the Audit, Compensation, and Nom Gov Committees have an annual evaluation of the Committees and of the Board as a whole. In 2018, there was an evaluation process for the Audit Committee and a combined evaluation process for the Board and its Committees, which focused on their roles and effectiveness, as well as fulfillment of their fiduciary duties. The evaluations were completed anonymously to encourage candid feedback. The results of the evaluations are reported to and reviewed by the full Board. Each Committee and the Board was satisfied with its performance and considered itself to be operating effectively, with appropriate balance among governance, oversight, strategic and operational matters.

Committees of the Board

The Board has established three standing Committees: the Audit Committee, the Compensation Committee, and the Nom Gov Committee. In addition, from time to time, special committees may be established under the direction of the Board when necessary to address specific issues. The composition of the Board Committees complies with the applicable rules of the SEC, the NYSE, and applicable law. Our Board has adopted written charters for its Audit Committee, Compensation Committee, and Nom Gov Committee.

The table below depicts Committee membership during fiscal year 2018, the current Committee membership as of the date of this Proxy Statement, as well as the number of times the Committees met during fiscal year 2018. Our Board believes that at this time, it is appropriate for each of the Board’s non-employee/independent directors to serve on each of our Committees. This approach encourages focused discussions that benefit from the variety of perspectives and experiences represented by each of our non-employee directors. Our Board also benefits from a majority of members being apprised of Committee activities, which allows for the Board to respond quickly as needed to issues that arise. Our Board has determined that each of the members of our standing Committees identified below was “independent,” as defined under and required by the rules of the SEC and the NYSE. Since February 2016, when he became our Interim President and Chief Executive Officer (prior to becoming our President and Chief Executive Officer in May 2016) and director, Mr. Rumbolz has not served as a member of any Committees of the Board.

Name	Audit (4 meetings in 2018)	Compensation (6 meetings in 2018)	Nom Gov Committee (5 meetings in 2018)
E. Miles Kilburn*	X	X	X
Geoffrey P. Judge	X	Chair	X
Ronald V. Congemi	X	X	X
Eileen F. Raney*	X	X	Chair
Linster W. Fox*	Chair	X	X
Maureen T. Mullarkey*	X	X	X

* Audit Committee Financial Expert

Audit Committee. The Audit Committee has responsibility to, among other things, review and discuss with management and our independent auditor, each, as appropriate:

- the integrity of our financial statements in accordance with generally accepted accounting principles (“GAAP”) and applicable rules and regulations of the SEC and the NYSE, including the Company’s annual and quarterly audited financial statements;
- the performance and adequacy of the Company’s internal audit function and internal auditor;
- policies with respect to risk assessment and risk management, including information technology risks (inclusive of but not limited to data privacy and security issues) and material financial risk, and the steps management has taken to monitor and control such exposures (further detail about the role of the Audit Committee in risk assessment and risk management is included in the section entitled “Board and Corporate Governance Matters - Board Role in Risk Oversight” above);
- the performance and independence of the Company’s independent auditor;
- our compliance with certain legal and regulatory requirements, including reports from the Company’s independent auditor in connection with the preparation of the Company’s financial statements; and
- related-party transactions.

The duties and responsibilities of our Audit Committee are more fully described in our Audit Committee Charter, which is available at the Corporate Governance section of the “Investors” page on our website at ir.everi.com/investor-relations/corporate-governance/governance-documents.

The Board has determined that Mr. Fox, the Chair of our Audit Committee, and each of Mr. Kilburn, Ms. Raney and Ms. Mullarkey, members of our Audit Committee, are each an “audit committee financial expert” and “independent” as defined under applicable NYSE standards and federal securities laws. Messrs. Congemi and Judge are each “financially literate” as defined under applicable NYSE standards.

Compensation Committee. The Compensation Committee reviews and approves the compensation and benefits of our executive officers and directors, administers and makes recommendations to our Board regarding our non-Chief Executive Officer compensation and incentive compensation and equity-based plans, produces an annual report on executive compensation for inclusion in our annual report or proxy statement, and publishes an annual Compensation Committee report for our stockholders. The duties and responsibilities of our Compensation Committee are more fully described in our Compensation Committee Charter, which is available at the Corporate Governance section of the “Investors” page on our website at ir.everi.com/investor-relations/corporate-governance/governance-documents.

Pursuant to the authority granted to it in its charter, during 2018 the Compensation Committee engaged Aon Hewitt (“Aon”) as its independent executive compensation consultant. Please refer to the discussion of the “Compensation Decision Making Process — Role of Compensation Consultants” in the “Compensation Discussion and Analysis” section of this Proxy Statement for further details.

None of the Company’s management participated in the Compensation Committee’s decision to retain Aon; however, the Company’s management regularly interacted with Aon and provided information upon Aon’s request. Aon reported directly to our Compensation Committee, and the Compensation Committee may replace Aon or hire additional consultants at any time. Aon attended meetings of our Compensation Committee, as requested, and communicated with the Chair of the Compensation Committee between meetings; however, our Compensation Committee made all decisions regarding the compensation of the Company’s executive officers.

Our Compensation Committee regularly reviews the services provided by its outside consultants and believes that Aon is independent in providing executive compensation consulting services. Our Compensation Committee conducted a specific review of its relationship with Aon in 2018 and determined that Aon’s work for the Compensation Committee did not raise any conflicts of interest, consistent with the guidance provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the SEC, and the NYSE. In making this determination, the Compensation Committee noted that during 2018:

- Aon did not provide any services to the Company or its management, other than services to our Compensation Committee, and its services were limited to executive and director compensation consulting. Specifically, it did not provide, directly, or indirectly through affiliates, any non-executive compensation services, including, but not limited to, pension consulting or human resource outsourcing;
- Fees from the Company were less than 1% of Aon’s total revenue;
- Aon maintains a Conflicts Policy with specific policies and procedures designed to ensure independence;
- None of the Aon consultants who worked on Company matters had any business or personal relationship with the Compensation Committee members;
- None of the Aon consultants who worked on Company matters, or Aon, as a whole, had any business or personal relationship with executive officers of the Company; and
- None of the Aon consultants who worked on Company matters directly own Company stock.

Our Compensation Committee continues to monitor the independence of its compensation consultant on a periodic basis.

All of the members of our Compensation Committee are independent for purposes of the listing standards of the NYSE.

Nom Gov Committee. The Nom Gov Committee (i) compiles and presents to the Board potential criteria for prospective members of our Board, conducts candidate searches and interviews, and formally proposes the slate of directors to be elected at each annual meeting of our stockholders, (ii) develops and recommends to our Board adoption of our Corporate Governance Guidelines, our Code of Business Conduct and our policies with respect to conflicts of interest, (iii) makes recommendations to the Board of Directors as to the membership of Committees of the Board, (iv) oversees and evaluates our Board and management, (v) evaluates from time to time the appropriate size and composition of our Board and recommends, as appropriate, increases, decreases and changes in the composition of our Board, and (vi) monitors our compliance with applicable laws, rules and regulations. The duties and responsibilities of our Nom Gov Committee are more fully described in our Nom Gov Committee Charter, which is available at the Corporate Governance section of the “Investors” page on our website at ir.ever.com/investor-relations/corporate-governance/governance-documents.

All of the members of our Nom Gov Committee are independent for purposes of the listing standards of the NYSE.

Director Nomination Process

Our Nom Gov Committee is responsible for recommending director candidates and nominees to the full Board of Directors, in collaboration with the Chairman of the Board.

As provided in the charter of the Nom Gov Committee, nominations for director may be made by the Nom Gov Committee or by a stockholder of record entitled to vote. The Nom Gov Committee will consider and make recommendations to the Board regarding any stockholder recommendations for candidates to serve on the Board. Stockholders wishing to recommend candidates for consideration by the Nom Gov Committee may do so in accordance with the instructions set forth under “***When are stockholder proposals due for the 2020 Annual Meeting of Stockholders?***” section of this Proxy Statement.

Director Selection Process

Our Nom Gov Committee seeks to identify candidates based on input provided by a number of sources, including (i) other members of the Board, (ii) officers and employees of the Company, and (iii) stockholders of the Company.

Our Nom Gov Committee will also seek ongoing input from the incumbent directors and the Chief Executive Officer, with the goal of identifying and informally approaching possible director candidates in advance of actual need. The Company does not pay any third party to identify or assist in identifying or evaluating potential nominees. The Board shall itself determine in each case the manner by which an invitation to join the Board shall be extended to director nominees, other than those nominated directly by the Company's stockholders.

Key factors the Nom Gov Committee considers when determining whether to recommend directors for nomination include:

- **Experience** - Particular skills and leadership that are relevant to the Company's industry
- **Diversity** - Diversity of background, race, gender, qualifications, attributes and skills
- **Age and Tenure** - The age and Board tenure of each incumbent director
- **Board Size** - The Nom Gov Committee periodically evaluates the size of the Board, depending on the Board's needs
- **Board Independence** - Independence of candidates for director nominees, including the appearance of any conflict in serving as a director
- **Board Contribution** - Integrity, business judgment and commitment
- **Willingness to Continue to Serve** - as applies to current directors if re-nominated

Once director candidates have been identified, the Nom Gov Committee will then evaluate each candidate in light of his or her qualifications and credentials, and any additional factors that the Nom Gov Committee deems necessary or appropriate. Existing directors who are being considered for re-nomination will be re-evaluated in connection with the Nom Gov Committee's process of recommending director candidates. There are no differences in the manner in which the Nom Gov Committee evaluates nominees for director based on whether the nominee is recommended by the Nom Gov Committee or a stockholder.

A detailed description of the criteria used by the Nom Gov Committee in evaluating potential candidates may be found in the charter of the Nom Gov Committee which is available at the Corporate Governance section of the "Investors" page on our website at ir.everi.com/investor-relations/corporate-governance/governance-documents.

Board Diversity

Our Board believes that the Company's directors should possess a combination of skills, professional experience, expertise, and diversity of backgrounds necessary to enable the Board to perform its oversight function effectively. Our Board maintains there are certain attributes every director should possess, as reflected in the Board's membership criteria as discussed above in the "Director Selection Process." Accordingly, our Board and our Nom Gov Committee consider the qualifications of directors and director candidates individually and in the context of the Board's overall composition and the Company's current and anticipated future needs. The Board assesses the effectiveness of this goal as part of its annual evaluation process.

Board Refreshment

We periodically review our Board's composition to ensure that we have the right mix of skills, background and tenure. Our Board currently consists of seven directors divided into three equal classes, who each serve a three-year term. The background and skills of these directors contribute significantly to the Company's strategy for future growth and long-term value creation.

Our Board also believes that directors develop an understanding of the Company and an ability to work effectively as a group over time that provides substantial value and a significant degree of continuity year-over-year beneficial to our stockholders.

As a result of healthy refreshment of the Board, the current tenure, independence, and diversity composition of our Board is as follows:

Tenure	Independence	Diversity
43% < 5 Years	86% Independent	71% Male
29% 5 - 10 Years	14% Non-Independent	29% Female
28% > 10 Years		

Communication Between Interested Parties and Directors

Stockholders and other interested parties may communicate with individual directors (including the Presiding Director), the members of a Committee of the Board, the independent directors as a group or the Board as a whole by addressing the communication to the named director, the Committee, the independent directors as a group or the Board as a whole, **c/o Corporate Secretary, Everi Holdings Inc., 7250 South Tenaya Way, Suite 100, Las Vegas, NV 89113, or via e-mail to secretary@everi.com**. The Company’s Corporate Secretary will forward all correspondence to the named director, the Committee, the independent directors as a group or the Board as a whole, except for spam, junk mail, mass mailings, product complaints or inquiries, job inquiries, surveys, business solicitations or advertisements or patently offensive or otherwise inappropriate material. The Company’s Corporate Secretary may forward certain correspondence, such as product-related inquiries, elsewhere within the Company for review and possible response.

Relationships Among Directors or Executive Officers

There are no family relationships among any of the Company’s directors or executive officers.

Executive Employment Agreements

We are party to employment agreements with each of our named executive officers. The material terms of the employment agreements with our named executive officers are described under “Executive Compensation— Compensation of Named Executive Officers — Employment Contracts and Equity Agreements, Termination of Employment and Change in Control Arrangements.”

Director and Officer Indemnification Agreements

We have entered into an indemnification agreement with each of our directors and executive officers. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the “Securities Act”) may be permitted to directors or executive officers, we have been informed that in the opinion of the SEC such indemnification is against public policy and is therefore unenforceable. We have purchased and maintain insurance on behalf of all of our directors and executive officers against liability asserted against or incurred by them in their official capacities, whether or not we are required to have the power to indemnify them against the same liability.

2018 Director Compensation

Historically, our independent director compensation was delivered in the form of cash retainers for Board and Board Committee service, annual grants of stock options, and a one-time award of stock options upon initial appointment to the Board. In the fourth quarter 2017, the Compensation Committee reviewed the structure of our compensation program and made adjustments based upon a competitive market assessment, the Company’s share price at the time of equity grants, and input from its independent compensation consultant.

For 2018, the Compensation Committee adopted the following changes to the compensation of our independent directors:

- The values of cash retainers were increased to better align to competitive market practice;
- The form of equity portion of compensation was changed from stock options to restricted stock units, which vest 33% per year for three years and settle upon the earlier of the director’s separation from service, the occurrence of a Change in Control, or the ten-year anniversary of the date of grant; and
- The number of restricted stock units was determined based on stated cash value consistent with competitive market practice and converted to restricted stock units of equivalent value as of the date of grant.

In 2018, our non-employee directors were compensated through equity awards and annual cash retainers for Board and Board Committee service, as follows:

	Annual Cash Retainer	Restricted Stock Units ⁽¹⁾
All non-employee Board Members	\$75,000	17,687 ⁽²⁾
Chairman of the Board	\$100,000 (\$75,000 retainer plus \$25,000 Chair fee)	27,891 ⁽³⁾
Audit Committee Member	\$12,500	None
Audit Committee Chair	\$25,000	None
Compensation Committee Member	\$10,000	None
Compensation Committee Chair	\$20,000	None
Nom Gov Committee Member	\$9,375	None
Nom Gov Committee Chair	\$15,000	None

- (1) Vest in equal installments on each of the first three anniversary dates of the grant date and settle on the earliest of the following events: (i) March 7, 2028; (ii) death; (iii) the occurrence of a Change in Control (as defined in the Amended and Restated 2014 Plan), subject to qualifying conditions; or (iv) the date that is six months following the separation from service, subject to qualifying conditions.
- (2) Represents equity units initially calculated based on a value of \$130,000. The actual value at the date of grant is disclosed in the following table.
- (3) Represents equity units initially calculated based on a value of \$205,000. The actual value at the date of grant is disclosed in the following table.

The following table sets forth the compensation of our independent members of the Board for the fiscal year ended December 31, 2018:

Name	Fees earned or paid in cash	Stock awards ⁽¹⁾	Total
E. Miles Kilburn ⁽²⁾	\$ 131,875	\$ 217,550	\$ 349,425
Geoffrey P. Judge ⁽²⁾	116,875	137,959	254,834
Ronald V. Congemi ⁽²⁾	106,875	137,959	244,834
Eileen F. Raney ⁽²⁾	112,500	137,959	250,459
Linster W. Fox ⁽²⁾	119,375	137,959	257,334
Maureen T. Mullarkey ⁽²⁾	87,339	137,959	225,298

- (1) Represents the fair value of the directors' restricted stock unit awards in fiscal year 2018, as calculated in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Stock Compensation. The time-based restricted stock units awards granted in 2018 to independent members of our Board vest in equal installments on each of the first three anniversary dates of the grant date and settle on the earliest of the following events: (i) March 7, 2028; (ii) death; (iii) the occurrence of a Change in Control (as defined in the Amended and Restated 2014 Plan), subject to qualifying conditions; or (iv) the date that is six months following the separation from service, subject to qualifying conditions. For a discussion on the assumptions made in the valuation of the directors' restricted stock unit awards, see the notes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

- (2) At December 31, 2018, our independent directors had the following aggregate numbers of unvested restricted stock unit awards and shares underlying unvested option awards:

Name	Unvested stock awards	Shares underlying unvested option awards
E. Miles Kilburn	27,891	156,248
Geoffrey P. Judge	17,687	94,998
Ronald V. Congemi	17,687	94,998
Eileen F. Raney	17,687	95,000
Linster W. Fox	17,687	95,000
Maureen T. Mullarkey	17,687	—

Compensation Committee Interlocks and Insider Participation

During fiscal year 2018, no member of the Compensation Committee was, or formerly was, an officer or employee of the Company or its subsidiaries. During fiscal year 2018, no interlocking relationship existed between any member of the Company’s Board or Compensation Committee and any member of the Board or Compensation Committee of any other company, nor has such interlocking relationship existed in the past.

Chief Executive Officer and Senior Management Succession Planning

Our Board oversees Chief Executive Officer and senior management succession planning, which is reviewed at least annually. Our Chief Executive Officer, after consultation with other members of management, provides the Board with a list of key individuals with immediate impact, the critical area of such individual’s impact, short-term/interim action and long-term action. Our Board reviews this information with our Chief Executive Officer. Further, our Board periodically reviews the overall composition of our senior management’s qualifications, tenure and experience.

TRANSACTIONS WITH RELATED PERSONS

Review, Approval or Ratification of Transactions with Related Persons

Under written procedures adopted by the Board, any transaction that is required to be reported under Item 404(a) of Regulation S-K promulgated by the SEC must be reviewed, approved or ratified by the Audit Committee. The types of transactions subject to these procedures include, but are not limited to: (i) the purchase, sale or lease of assets to or from a related person; (ii) the purchase or sale of products or services to or from a related person; or (iii) the lending or borrowing of funds from or to a related person. Approval of transactions with related persons shall be at the discretion of the Audit Committee, but the Audit Committee shall consider: (a) the consequences to the Company of consummating or not consummating the transaction; (b) the extent to which the Company has a reasonable opportunity to obtain the same or a substantially similar benefit of the transaction from a person or entity other than the related person; and (c) the extent to which the terms and conditions of such transaction are more or less favorable to the Company and its stockholders than the terms and conditions upon which the Company could reasonably be expected to negotiate with a person or entity other than the related person. Further, our Code of Business Conduct, Standards and Ethics requires our non-employee directors and our officers and employees to raise with our General Counsel any material transaction or relationship that could reasonably be expected to give rise to a personal conflict of interest. Our Corporate Governance Guidelines also prohibit the Company's making of any personal loans to directors, executive officers or their immediate family members.

Transactions with Related Persons in 2018

During fiscal year 2018, the Company did not engage in any transactions, and there are not currently proposed any transactions, or series of similar transactions, to which the Company was or will be a party, with related parties that required review, approval or ratification of the Audit Committee or any other Committee.

EXECUTIVE OFFICERS

Set forth below is certain information regarding each of our current executive officers, other than Mr. Rumbolz, whose biographical information is presented under “Information Concerning the Director Nominees.”

Name	Age	Position
Michael D. Rumbolz	65	President and Chief Executive Officer
Randy L. Taylor	56	Executive Vice President and Chief Financial Officer
Edward A. Peters	56	Executive Vice President, Sales and Marketing
Dean A. Ehrlich	50	Executive Vice President, Games Business Leader
Harper H. Ko	45	Executive Vice President, Chief Legal Officer, General Counsel and Corporate Secretary

Randy L. Taylor has served as our Executive Vice President and Chief Financial Officer since March 2014, having previously served as the Company’s Senior Vice President and Controller since November 2011. Prior to joining the Company, Mr. Taylor served in various positions for Citadel Broadcasting Corporation, a radio broadcasting company, from April 1999 to September 2005 and from September 2006 to September 2011, including as Chief Financial Officer, from 2008 to 2011. In December 2009, Citadel Broadcasting Corporation filed a petition for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code and emerged from reorganization under Chapter 11 in June 2010. Mr. Taylor also served as the Vice President of Finance and Corporate Controller of Bally Technologies, Inc. from September 2005 to September 2006.

Edward A. Peters has served as our Executive Vice President, Sales and Marketing since January 2015, having previously served as Senior Vice President, Sales for the Company since November 2014. Prior to joining the Company, Mr. Peters served in various senior executive positions, including as Senior Vice President Business Development in Global Commercial Services from February 2010 through November 2014 for Fidelity Information Services, a services and global business solutions company; Chief Information Officer for Silverton Bank from August 2004 through February 2010; and Senior Vice President for Prudential Bank from December 2000 through July 2004.

Dean A. Ehrlich has served as our Executive Vice President, Games Business Leader since January 2017, having previously served as an Executive Consultant to the Company since August 2016. Prior to joining the Company, Mr. Ehrlich served in various senior executive positions with WMS Industries Inc., an electronic gaming and amusement manufacturer, from May 2003 through July 2015, which was acquired by Scientific Games Corporation in late 2013, including as Senior Vice President Global Gaming Operations. Mr. Ehrlich spent several years at Anchor Gaming from October 1994 until May 2003, which was acquired by International Game Technology in late 2001, serving in multiple leadership roles, including as General Manager for its Proprietary Games division.

Harper H. Ko has served as our Executive Vice President, Chief Legal Officer, General Counsel and Corporate Secretary since December 2017. Prior to joining the Company, Ms. Ko served as Deputy General Counsel, Gaming for Scientific Games Corporation, a leading gaming and lottery equipment and services supplier, from 2014 to 2017. From November 2007 to November 2014, Ms. Ko served as Assistant General Counsel for Bally Technologies, Inc., a manufacturer of casino equipment and games, joining Scientific Games following its acquisition of Bally Technologies, Inc. Ms. Ko also served as a Contract Attorney with Harrah’s Operating Company from 2006 to 2007, as Associate Corporate Counsel for Aristocrat Technologies, Inc. from 2004 to 2006, and as counsel for WMS Industries, Inc. from 2000 to 2004.

PROPOSAL 2

ADVISORY (NON-BINDING) VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS (SAY ON PAY)

(Item No. 2 on the Proxy Card)

As required by Item 24 of Schedule 14A, we are asking for stockholder approval, on a non-binding, advisory basis, of the compensation of our named executive officers as disclosed in this Proxy Statement, which disclosures include the disclosures under “Compensation Discussion and Analysis,” the compensation tables, and the narrative discussion following the compensation tables. This proposal, commonly known as “Say on Pay” proposal, is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the policies and practices described in this Proxy Statement.

We believe that the Company has created a compensation program deserving of stockholder support. At our 2018 annual meeting of stockholders, over 99% of the votes cast supported our executive compensation program for 2017. Our Compensation Committee, which is responsible for designing and administering our executive compensation program, has designed our executive compensation program to provide a competitive and internally equitable compensation and benefits package that reflects Company performance, job complexity and the strategic value of the applicable position, while ensuring long-term retention, motivation and alignment with the long-term interests of the Company’s stockholders.

Please read “Compensation Discussion and Analysis” for additional details about our executive compensation program, including information about the 2018 compensation of our named executive officers.

The Board unanimously recommends that stockholders vote in favor of the following resolution:

“RESOLVED, that the stockholders of Everi Holdings Inc. approve, on a non-binding advisory basis, the compensation paid to the Company’s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, set forth in the Company’s definitive proxy statement for the 2019 Annual Meeting of Stockholders.”

Approval of this non-binding, advisory “Say on Pay” resolution requires the affirmative vote of the holders of a majority of the votes cast at the Annual Meeting at which a quorum is present.

The vote on this proposal is non-binding and advisory in nature and will not affect any compensation already paid or awarded to any named executive officer, and it will not be binding on or overrule any decisions by our Board or our Compensation Committee. Nevertheless, our Board highly values input from our stockholders, and our Compensation Committee will carefully consider the result of this vote when making future decisions about executive compensation.

THE BOARD UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE “FOR” THE RESOLUTION APPROVING THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.

EXECUTIVE COMPENSATION

The Company is a holding company, the principal asset of which is the capital stock of Everi Payments Inc. (“Everi Payments”), and the capital stock of Everi Games Holding Inc. (“Everi Games Holding”), which is the parent of Everi Games Inc. (“Everi Games”). All of the executive officers of the Company are employees of Everi Payments, other than Mr. Ehrlich who is an employee of Everi Games. All references in this Proxy Statement to executive compensation relate to the executive compensation paid by Everi Payments or Everi Games to such executive officers.

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis (“CD&A”) describes the philosophy, objectives and structure of our 2018 executive compensation program. This CD&A is intended to be read in conjunction with the Compensation of Named Executive Officers section contained within this Executive Compensation portion of the proxy, which provides further historical compensation information for our following named executive officers as of December 31, 2018 (“named executive officers” or “NEOs”):

Name	Current Title
Michael D. Rumbolz	President and Chief Executive Officer
Randy L. Taylor	Executive Vice President and Chief Financial Officer
Edward A. Peters	Executive Vice President, Sales and Marketing
Dean A. Ehrlich	Executive Vice President, Games Business Leader
Harper H. Ko	Executive Vice President, Chief Legal Officer, General Counsel and Corporate Secretary

Quick CD&A Reference Guide

Executive Summary	Section I
Compensation Philosophy and Objectives	Section II
Compensation Decision Making Process	Section III
Compensation Competitive Analysis	Section IV
Elements of Compensation	Section V
Additional Compensation Practices and Policies	Section VI

I. Executive Summary

Throughout 2018, the Company successfully implemented strategies that have stabilized the business and strengthened the Company going forward. This has included improving efficiencies, innovating new content and increasing infrastructure related to information technology and information security systems. The Company has also improved product offerings and currently has its most diverse portfolio of Games and FinTech solutions.

The Company's executive compensation program is designed to pay for performance - that is, to reward executives in a manner that is proportionate to the achievement of established goals. These goals may be expressed in terms of Company-wide performance, operating segment performance or individual performance.

2018 Performance Highlights

Throughout 2018 the Company executed on key initiatives which led to consistent improvement in financial performance which provides the foundation for future growth. Some highlights of our accomplishments in 2018:

- Total revenues adjusted for the net versus gross retrospective impact of ASC 606 increased by approximately \$58.8 million, or 14%, to approximately \$469.5 million;
 - Games segment revenues increased by approximately \$36.8 million, or 17%, and FinTech segment revenues increased by approximately \$22.0 million, or 12%;
- Reported Net Income of approximately \$12.4 million as a result of net income in each quarter;
 - First year of profitability since the acquisition of the Games business in late 2014;
 - Profitability driven by increased year-over-year revenues in both the Games and in FinTech segments;
- Achieved Diluted Earnings per Share of \$0.17 in 2018;
- Record unit sales of 4,513 units in our Games segment;
- Installed base of gaming machines of 13,999 units in our Games segment.

2018 Compensation Program Highlights

We believe our pay program is effective, and, consistent with past years, 2018 is a strong affirmation of this belief. Our business performance in 2018 has been reflected in our executive pay outcomes and Compensation Committee decisions. For example:

- *Performance-Based Compensation:* Executive compensation includes substantial variable compensation components, including short-term incentive compensation in the form of annual non-equity incentive cash bonuses that are contingent upon achievement of certain financial targets as well as long-term incentive compensation in the form of both (i) performance-based equity grants that are contingent upon achievement of pre-determined revenue and Adjusted Earnings Before Interest Taxes Depreciation and Amortization (“AEBITDA”) targets by December 31, 2020, and (ii) time-based equity grants for which full value can only be realized upon continued employment with the Company through the entirety of the four-year vesting period.
- *Short-Term Incentive Opportunities:* To better align our NEOs (less the Chief Executive Officer) with the outcomes of our annual performance, target short-term incentive opportunities were increased to 75% of base salary for 2018.
- *Short-Term Incentive Payouts:* Our AEBITDA was \$230.4 million, slightly above our target performance level. As such, executives received annual non-equity incentives for this financial goal. Average achieved target payout for named executive employees was approximately 80% of individual annual short-term incentive target. (See Appendix A to this Proxy Statement for a reconciliation of financial measures prepared in accordance with GAAP to non-GAAP financial measures disclosed in this CD&A. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, financial results prepared in accordance with GAAP).
- *Equity Grants in 2018:* Consistent with past years, the Compensation Committee concluded that executive equity grants are a beneficial vehicle for retaining and motivating the executive team to pursue the creation of long-term sustainable stockholder value. In 2018, the Compensation Committee modified the way it delivers long-term awards by replacing the stock option design used in 2017 with a mix of performance- and time-based restricted share units. The performance-based restricted share units link executive pay outcomes to three-year corporate revenue growth and AEBITDA growth goals and time-based restricted share units vest over a four-year period.
- *Certain Base Salary Increases:* In light of strong corporate performance in 2017, the Compensation Committee determined that the Chief Executive Officer and the Chief Financial Officer should receive merit increases to their respective base salaries in 2018.

II. Compensation Philosophy and Objectives

The principal objective of the Company’s executive compensation policies is to align the executives’ incentives with the achievement of the Company’s strategic goals, which are in turn designed to enhance stockholder value. The Company designed its executive compensation policies to be both fair and reasonable in light of performance, competitive with the compensation paid to executives of similarly situated companies, and to incent its executives to achieve the Company’s strategic goals, while at the same time discouraging them and other employees from taking excessive risk.

Our primary objectives can be summed up as such:

- ✓ Align the interests of our executives with those of stockholders;
- ✓ Link executive compensation to the Company’s short-term and long-term performance;
- ✓ Attract, motivate and retain high performing executive officers through competitive compensation arrangements; and
- ✓ Promote long-term value creation and growth strategies.

Compensation Governance Practices

The following is an overview of the highlights of our compensation structure, and the fundamental compensation policies and practices we do and do not use:

WHAT WE DO	WHAT WE DON'T DO
<input checked="" type="checkbox"/> Executive Compensation Based on Pay-for-Performance Philosophy. We align the interests of our executives and stockholders through the use of performance-based annual cash incentive compensation and service and performance-based long-term equity incentive compensation.	<input checked="" type="checkbox"/> No Pledging of Our Securities. Our officers and directors are prohibited from pledging our stock to secure loans of any type.
<input checked="" type="checkbox"/> Double-Trigger Severance Payments. A Change in Control by itself is not sufficient to trigger severance payments, it must also be accompanied by a qualifying termination.	<input checked="" type="checkbox"/> No Hedging of Our Securities. Our officers and directors are prohibited from engaging in any hedging or other speculative trading in our stock.
<input checked="" type="checkbox"/> Cash and Equity Clawback Policy. We have a clawback policy regarding the recoupment of incentive compensation if an executive officer willfully committed an illegal act, fraud, intentional misconduct or gross recklessness that caused a mandatory restatement of our financials.	<input checked="" type="checkbox"/> No Defined Benefit or Supplemental Retirement Plans. We do not provide pension arrangements, retirement plans or nonqualified deferred compensation plans or arrangements to our executives, other than benefits generally available to our employees.
<input checked="" type="checkbox"/> Stock Ownership Guidelines for Officers and Directors. Our officers and directors are required to accumulate stock holdings over a reasonable period of time that is a multiple of their respective base salaries or Board retainers, as applicable.	<input checked="" type="checkbox"/> No Excise Tax Gross-Ups. Our NEOs are not entitled to any such gross-up.
<input checked="" type="checkbox"/> Independent Committee Members. Our Compensation Committee is comprised of entirely independent members.	<input checked="" type="checkbox"/> No Excessive Perquisites. We do not provide perquisites or other personal benefits to executive officers that are not available to all employees.
<input checked="" type="checkbox"/> Independent Compensation Consultant. We engage an independent compensation consultant to review and provide recommendations regarding our executive compensation program.	
<input checked="" type="checkbox"/> Peer Group Analysis. We review total direct compensation (base salary, annual cash incentive and long-term incentive payments) and the mix of compensation components for the NEOs relative to the peer group as one of the factors in determining if compensation is adequate to attract and retain executive officers.	
<input checked="" type="checkbox"/> Annual Say on Pay Advisory Vote.	

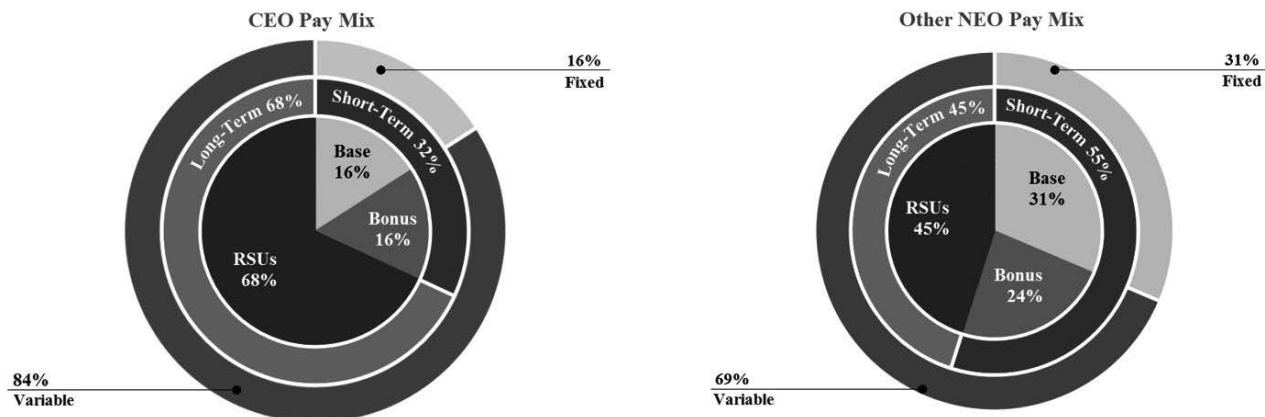
Components of Our Compensation Program

The Compensation Committee oversees our executive compensation program, which includes several compensation elements that have each been tailored to incentivize and reward specific aspects of Company performance that our Board believes are central to delivering long-term stockholder value. Key components of our 2018 compensation program are:

Type	Element	Performance Period	Objective	Performance Measured and Rewarded
Fixed	Base Salary	Annual	Recognizes an individual's role and responsibilities and serves as an important retention vehicle	<ul style="list-style-type: none"> • Reviewed annually and set based on market competitiveness, individual performance and internal equity considerations
Short-Term Incentive Plan				
Performance - based	Annual Cash Bonus	Annual	Rewards achievement of annual financial objectives and individual performance goals	<ul style="list-style-type: none"> • Corporate AEBITDA (37.5%) • Segment AEBITDA (37.5%) • Individual Performance Goals (25%)
Long-Term Incentive Plan				
Performance - based	Performance-Based Restricted Stock Units	Long-Term	Supports the achievement of long-term financial objectives and share price	<ul style="list-style-type: none"> • Revenue growth (50%) • AEBITDA growth (50%) • Three year performance period
	Time-Based Restricted Stock Units	Long-Term	Aligns the interests of management and stockholders and supports share price growth	<ul style="list-style-type: none"> • Vests ratably over four years

2018 Target Total Compensation

Consistent with our desire to align pay and performance, we take the above-mentioned elements and more heavily weight their distribution towards variable (or, “at-risk”) compensation. Although our Compensation Committee does not target a specific allocation for each pay element, the Compensation Committee attempts to deliver an appropriate balance between fixed and variable elements, as well as short- and long-term incentives, as evidenced here in the following 2018 target pay mix allocation charts:



2018 Say on Pay Results

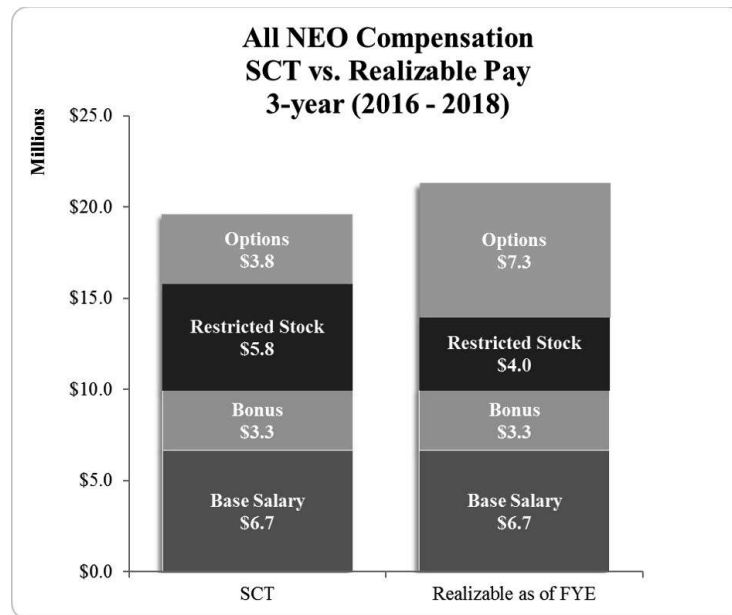
At our 2018 Annual Meeting of Stockholders, the Say on Pay proposal received the support of approximately 99.6% of the shares voted, which we believe indicates strong support for our compensation program and practices. Our Compensation Committee believes the support for our ongoing efforts to improve and refine our compensation program and further align management and stockholder interests was reflected in the strong support for our 2018 Say on Pay proposal.

III. Compensation Decision Making Process

Paying for Performance: Realizable Pay

Paying for performance continues to be the foundation of our compensation program, and we put much of our executive’s pay “at-risk”. In 2016 and 2017, we granted premium priced and market-priced stock options that do not vest unless significant stock price increases are achieved. In 2018, we granted time-based and performance-based restricted stock unit awards to retain and motivate our executives to deliver long-term performance. Given that a significant portion of the compensation packages are variable with our performance, oftentimes the grant date value of compensation packages (as reported annually on the Summary Compensation Table) is not always reflective of the actual realizable pay value that may be received by the executive team.

The following chart shows the difference between the reported pay, as disclosed in the Summary Compensation Table of our NEO team and the realizable pay values of those awards as of the end of the 2018 fiscal year.



“SCT” pay is the pay disclosed in the Summary Compensation Table, including actual base salary, actual annual bonuses received, and long-term incentive components (restricted stock awards and annual stock option grants) based on the grant date fair value.

“Realizable as of FYE” pay is defined as the compensation earned or deliverable, including: actual salary received, actual annual bonuses received, and the intrinsic value of long-term incentive plan components, as valued on December 28, 2018 (the last trading day of the 2018 fiscal year) using the year-end share price of \$5.15 per share.

Role of the Board

Our Board has appointed a Compensation Committee, consisting exclusively of independent directors. The Compensation Committee’s charter authorizes our Compensation Committee to review and approve or to recommend for approval to the full Board, the compensation of our Chief Executive Officer and other executives. Our Board has authorized our Compensation Committee to make various decisions with respect to executive compensation. However, the Board also may make determinations and approve compensation in its discretion, including where the Compensation Committee recommends that the Board considers such executive compensation matters.

Role of the Compensation Committee

Our Compensation Committee evaluates the performance of our Chief Executive Officer and approves the compensation for our Chief Executive Officer in light of the goals and objectives of our compensation program for that year. Our Compensation Committee annually assesses the performance of our other executives, and, based in part on the recommendations from our Chief Executive Officer, approves the compensation of these executives. Our Compensation Committee may delegate its authority to subcommittees, but retains, and does not delegate, any of its responsibility to determine executive compensation.

Role of Management

At the request of our Compensation Committee, our Chief Executive Officer may attend a portion of our Compensation Committee meetings, including meetings at which our Compensation Committee’s compensation consultants are present. This enables our Compensation Committee to review, with our Chief Executive Officer, the corporate and individual goals that the Chief Executive Officer regards as important to achieve our overall business objectives. Our Compensation Committee also requests that our Chief Executive Officer assesses the performance of, and our goals and objectives for, certain other officers as deemed appropriate, including our other NEOs. In addition, our Compensation Committee may request certain other executives to provide input on executive compensation, including assessing individual performance and future potential, market data analyses and various compensation decisions relating to bonuses, equity awards and other pay during the year. None of our executives generally attends any portion of Compensation Committee meetings at which his or her compensation is discussed.

Role of Compensation Consultants

Pursuant to the authority granted to it in its charter, the Compensation Committee may engage an independent executive compensation consultant. The consultant reports directly to the Compensation Committee, who may replace the consultant or hire additional consultants at any time. The compensation consultant attends meetings of the Compensation Committee, as requested, and may communicate with the Chair of the Compensation Committee between meetings; however, the Compensation Committee makes all decisions regarding the compensation of the Company's executive officers.

The compensation consultant provides services to the Compensation Committee, including, but not limited to: advice on compensation philosophy, incentive plan design, executive job compensation analysis, stockholder engagement and CD&A disclosure, among other compensation topics. The compensation consultant provides no additional services to the Company, other than the consulting services provided to the Compensation Committee. In 2018, Aon served as the Compensation Committee's independent compensation consultant and provided the foregoing services to the Compensation Committee.

Our Compensation Committee conducted a specific review of its relationship with Aon in 2018, and determined that Aon's work for the Compensation Committee did not raise any conflicts of interest. Aon's work has conformed to the independence factors and guidance provided by the Dodd-Frank Act, the SEC and the NYSE.

Compensation Risk Oversight

The Compensation Committee has reviewed and discussed the concept of risk as it relates to the Company's compensation policies and it does not believe that the Company's compensation policies encourage excessive or inappropriate risk taking. Further, the Compensation Committee has endorsed and adopted several measures to further discourage risk-taking, such as robust stock ownership guidelines for its executives and non-employee directors, and a clawback policy that grants the Compensation Committee broad discretion to recover incentive awards from Section 16 officers in the unlikely event that incentive plan award decisions were based on financial results that are subsequently restated.

The Compensation Committee identified no material risks in the compensation programs in 2018.

IV. Compensation Competitive Analysis

The Compensation Committee worked with its independent consultant, Aon, to create a meaningful peer group for the purposes of assessing the competitiveness and appropriateness of the Company's NEO compensation in the market. To formulate this peer group, the Compensation Committee looked to identify two types of businesses: Games and FinTech, which represent the two core businesses of the Company. From there, the Compensation Committee and Aon screened potential peers for similar size and complexity, using revenue, market capitalization, and enterprise value as its guiding metrics.

Given the complexities and volatility of the industry, the Compensation Committee believes it is not appropriate to rigidly benchmark executive pay to a specific percentile of the group. Instead, the Compensation Committee uses the comparative data merely as a reference point in exercising its judgment about compensation design and setting appropriate target pay levels.

Our peer group consists of the following companies:

Comparator Company	Ticker	Type
Boyd Gaming Corporation	BYD	Gaming
Scientific Games Corp.	SGMS	Gaming
Churchill Downs Inc.	CHDN	Gaming
JAKKS Pacific, Inc.	JAKK	Gaming
Zynga, Inc.	ZNGA	Gaming
Glu Mobile, Inc.	GLUU	Gaming
Pinnacle Entertainment ⁽¹⁾	PNK	Gaming
Red Rock Resorts, Inc.	RRR	Gaming
Eldorado Resorts, Inc.	ERI	Gaming
Tropicana Entertainment Inc. ⁽¹⁾	TPCA	Gaming
Golden Entertainment Inc.	GDEN	Gaming
VeriFone Systems, Inc. ⁽¹⁾	PAY	Payments
Euronet Worldwide, Inc.	EEFT	Payments
Moneygram International Inc.	MGI	Payments
Blackhawk Network Holdings, Inc. ⁽¹⁾	HAWK	Payments
Cardtronics, Inc.	CATM	Payments
WEX Inc.	WEX	Payments
Green Dot Corporation	GDOT	Payments
ACI Worldwide, Inc.	ACIW	Payments
Evertec, Inc.	EVTC	Payments
20 Peers		

(1) Peer company was acquired since the completion of the last benchmarking analysis.

V. Elements of Compensation

The Company's executive compensation policy is simple and transparent in design, and consists primarily of base salary, annual cash incentive awards and long-term equity incentive awards for fiscal year 2018.

Base Salary Compensation

Base salary compensation is intended to provide an appropriate level of assured cash compensation that is sufficient to retain the services of our executives. Base salary compensation is reviewed annually in connection with the Company's performance review process, and are determined based upon the following factors:

- Position and responsibility;
- Job performance, and expected contribution to the Company's future performance;
- Market factors, including the market compensation profile for similar jobs and the need to attract and retain qualified candidates for high-demand positions;
- Internal value of the executive's role based on the relative importance of the job as compared to the Company's other executive officers, as measured by the scope of responsibility and performance expectations; and
- Retention risk and the Company's need to retain high performing and high potential executives.

In 2018, base salary compensation was as follows:

NEO	2017 Base Salary	2018 Base Salary
Michael D. Rumbolz ⁽¹⁾	\$ 600,000	\$ 700,000
Randy L. Taylor ⁽¹⁾	400,000	475,000
Edward A. Peters	400,000	400,000
Dean A. Ehrlich	400,000	400,000
Harper H. Ko	—	350,000

(1) In connection with the Company's performance review process, the Compensation Committee increased the base salary for Mr. Rumbolz and Mr. Taylor to \$700,000 and \$475,000, respectively, effective November 6, 2017.

Annual Cash Incentives

All of our NEOs were eligible for the 2018 annual non-equity cash incentive plan, which promoted the Company's pay-for-performance philosophy by providing executives with direct financial incentives in the form of annual cash incentive bonuses for achieving pre-determined individual and Company performance goals.

Each NEO's annual non-equity cash incentive bonus target is established as a percentage of base salary. Such target cash bonus percentage was either negotiated and set forth in the NEO's employment agreement or otherwise established by the Compensation Committee. The following targets were effective in 2018:

Name	Target	Maximum
	<i>(As a % of base salary)</i>	
Michael D. Rumbolz	100%	150%
Randy L. Taylor	75%	150%
Edward A. Peters	75%	150%
Dean A. Ehrlich	75%	150%
Harper H. Ko	75%	150%

2018 Performance Metrics

For 2018, the Company's annual non-equity incentive plan for executives consisted of four performance metrics. The metrics and their associated weightings in the incentive plan are as follows:

Metric	Corporate AEBITDA	Games Segment AEBITDA	FinTech Segment AEBITDA	Personal Goals
Michael D. Rumbolz	37.5%	18.75%	18.75%	25.0%
Randy L. Taylor	37.5%	18.75%	18.75%	25.0%
Edward A. Peters	37.5%	18.75%	18.75%	25.0%
Dean A. Ehrlich	37.5%	37.5%	—	25.0%
Harper H. Ko	37.5%	18.75%	18.75%	25.0%

The goals associated with the AEBITDA components of the annual incentive plan and the associated payouts are as follows:

Component	Performance Ranges	Payout Ranges
	Target	Target ⁽¹⁾
Corporate AEBITDA	\$228M - \$230M	100%
Games AEBITDA	\$128M - \$129M	100%
FinTech AEBITDA	\$100M - \$101M	100%

(1) Maximum awards are capped at 150% of each executive's target award value based on Board discretion.

In 2018, the Individual Performance Goals, established by the Compensation Committee, and weighted equally, consisted of goals related to Corporate Strategy, Leadership, and Enhancing Customer and Community Relationships. In order for any portion of the Individual Performance Goals to be paid, the minimum level of Games Segment AEBITDA and FinTech Segment AEBITDA must be achieved (other than Mr. Ehrlich who must achieve only the minimum Games Segment AEBITDA). The Individual Performance Goals consist of:

Corporate Strategy	<ul style="list-style-type: none"> Continue to lead in product innovation and technology for the gaming industry. Maintain and expand the Company's operating footprint through strategic acquisitions, alliances or technology development to achieve growth targets. Continue to improve internal processes to align with provision of best in class products and services to our customers.
Leadership	<ul style="list-style-type: none"> Implement corporate leadership training programs to educate and contribute to career development of senior and executive leaders.
Enhance Customer and Community Relationships	<ul style="list-style-type: none"> Enhance the Company's customer communications efforts with efficient and effective resources to ensure targeted and accurate information dissemination. Implement additional employee benefits and procedures to measure employee satisfaction to invest in employee retention and better align employees with the Company's strategic goals.

2018 Performance and Actual Payouts

For the year ended December 31, 2018, we had the following achievements:

- AEBITDA - \$230.4 million (100% of target)
- Games AEBITDA - \$126.8 million (less than target)

- FinTech AEBITDA - \$103.6 million (100% of target)

Based upon this performance, the NEOs received an average of approximately 80% of the target payout with respect to the Company's AEBITDA objectives and Individual Performance Goals. Final earned payouts were adjusted slightly for certain NEOs based on the Compensation Committee's assessment of their individual contributions during the past year.

Name	Base Salary	Target Short-Term Incentive Opportunity as a % of Base Salary	Target Short-Term Incentive Opportunity (\$)	Total Short-Term Incentive Payment	Achieved Short-Term Incentive Opportunity as a % of Base Salary
Michael D. Rumbolz	\$ 700,000	100%	\$ 700,000	\$ 535,000	76.4%
Randy L. Taylor	475,000	75%	356,250	285,000	80.0%
Edward A. Peters	400,000	75%	300,000	265,000	88.3%
Dean A. Ehrlich	400,000	75%	300,000	220,000	73.3%
Harper H. Ko	350,000	75%	262,500	220,000	83.8%

Target Split

Name	Corporate	Split FinTech	Split Games	Games Only	Personal	Total Target
	37.5%	18.75%	18.75%	37.5%	25.0%	100%
Michael D. Rumbolz	\$ 262,500	\$ 131,250	\$ 131,250	\$ —	\$ 175,000	\$ 700,000
Randy L. Taylor	133,594	66,797	66,797	—	89,063	356,250
Edward A. Peters	112,500	56,250	56,250	—	75,000	300,000
Dean A. Ehrlich	112,500	—	—	112,500	75,000	300,000
Harper H. Ko	98,438	49,219	49,219	—	65,625	262,500

Actual Split

Name	Corporate	Split FinTech	Split Games	Games Only	Personal	Total Achieved
	37.5%	18.75%	18.75%	37.5%	25.0%	100%
Michael D. Rumbolz	\$ 262,500	\$ 131,250	\$ 39,375	\$ —	\$ 101,875	\$ 535,000
Randy L. Taylor	133,594	66,797	20,039	—	64,570	285,000
Edward A. Peters	112,500	56,250	16,875	—	79,375	265,000
Dean A. Ehrlich	112,500	—	—	33,750	73,750	220,000
Harper H. Ko	98,438	49,219	14,766	—	57,579	220,000

Long-Term Equity Incentive Awards

We believe that the award of stock-based compensation and incentives is an effective way of aligning our executives' interests with the goal of enhancing stockholder value. Due to the direct relationship between the value of an equity award and the Company's stock price, we believe that equity awards motivate executives to manage the Company's business in a manner that is consistent with stockholder interests. Through the grant of restricted stock unit awards that vest over time, we can align executives' interests with the long-term interests of our stockholders who seek appreciation in the value of our Common Stock. To that end, the time-based equity awards that we grant to executives typically vest and become fully-exercisable over a four-year period. Correspondingly, the performance-based equity awards that we grant to executives typically vest over a performance period based on the achievement of certain revenue and AEBITDA targets that must be approved by the Compensation Committee of the Board.

In 2018, the Compensation Committee redesigned the long-term incentive plan. The use of market- (or tied to stock price performance) and time-based stock options was discontinued. In its place, the Compensation Committee implemented a program that includes performance- and time-based restricted share units. The new plan was adopted to continue a pay for performance philosophy, align executives with key financial metrics, and align with a common market-based compensation approach.

The principal factors considered in granting restricted stock unit awards and determining the size of grants to executives were prior performance, level of responsibility, the amounts of other compensation attainable by the executive and the executive’s ability to influence the Company’s long-term growth and profitability. Our Compensation Committee does not apply any quantitative method for weighing these factors and a decision to grant an award is primarily based upon a subjective evaluation of the executive’s past performance as well as anticipated future performance.

2018 Awards

In keeping with the Company’s commitment to strengthening its overall corporate governance, including its compensation program, the Company continued the practice of granting a mix of performance- and time-based awards. For 2018, 60% of the restricted stock unit awards consisted of performance-based restricted stock and 40% of the restricted stock unit awards consisted of time-based restricted stock in order to continue to incentivize, motivate and retain the executive team, while further strengthening and demonstrating the alignment of management and stockholder interests.

VI. Additional Compensation Policies and Practices

Equity Ownership Policy

The Company and its stockholders are best served by a board and executive team that manage the business with a long-term perspective. As such, the Company adopted the Equity Ownership Policy in February 2016, as the Company believes stock ownership is an important tool to strengthen the alignment of interests among stockholders, directors, NEOs, and other officers. The policy provides that the applicable required level of equity ownership is expected to be satisfied by our directors, NEOs, and other officers within five years of the later of: (i) February 25, 2016; and (ii) the date such person first becomes subject to the Equity Ownership Policy.

The Compensation Committee will receive periodic reports of the ownership achieved by each director, executive officer and other officers. Until such time as such person satisfies the equity ownership requirement, the achievement level of ownership will be determined by reference to the average closing stock price of our Common Stock during the fiscal year ended immediately prior to the determination date. Once the equity ownership requirement has been satisfied, future increases or decreases in the equity price of our Common Stock will not impact the compliance of our directors, executive officers, and other officers with these guidelines, as long as such person holds the number of shares he or she had at the time he or she achieved the required ownership level.

The following table sets forth the required salary multiples for each category of person subject to the policy:

Current NEO	Required Salary Multiple
President and Chief Executive Officer	6x base salary
All other NEOs	3x base salary
Other officers	1x to 2x base salary
Non-employee directors	5x annual cash retainer

The value of all of the following types of Company stock or stock options owned by or granted to an executive, other officer or director qualifies toward the participant’s attainment of the target multiple of pay:

- Shares owned outright/shares beneficially owned (including by a family member and/or in a trust);
- Vested restricted stock;
- Shares owned through the Company’s 401(k) plan (if applicable); and
- Shares underlying vested, but unexercised, stock options (based on the excess of the market price of the stock over the exercise price and after deducting any tax withholding obligations).

At December 31, 2018, all current named executive officers, other officers, and non-employee directors either met the ownership guidelines or were within the five-year phase-in period.

Clawback Policy

The Board of the Company adopted an Incentive Compensation Clawback Policy in February 2016, which entitles the Company to recover certain compensation previously paid to its Section 16 and executive officers. The policy provides that, in the event of a restatement of the Company's financial statement for any fiscal year commencing after December 31, 2015 that is due to the misconduct of any employee, the Board or, if so designated by the Board, the Compensation Committee of the Board, is authorized to take action to recoup all or part of any incentive compensation received by a Section 16 and executive officer of the Company. For purposes of this policy, incentive compensation includes any cash compensation or an award of equity compensation from the Company that is based in whole or in part on the achievement of financial results by the Company, including, but not limited to, any bonus, incentive arrangement or equity award, but excluding base salary. The policy defines misconduct as the willful commission of an illegal act, fraud, intentional misconduct or gross recklessness in the performance of an employee's duties and responsibilities. In determining whether to take action to recoup any incentive compensation received by a Section 16 or executive officer of the Company, the Board or, if so designated, the Compensation Committee of the Board, will take into consideration whether the Section 16 or executive officer engaged in the misconduct or was in a position, including in a supervisory role, to have been able to have reasonably prevented the misconduct that caused the restatement.

Anti-Hedging and Anti-Pledging Policies

Under our Insider Trading Policy, directors and executive officers, as well as other employees, are prohibited from engaging in the following activities with respect to the Company's Common Stock:

- Hedging their interest in Company shares by selling short or trading or purchasing "put" or "call" options on our Common Stock or engaging in similar transactions; and
- Pledging any shares of our Common Stock without prior clearance from our Corporate Compliance Officer as outlined in our Insider Trading Policy.

As of the date of this Proxy Statement, no shares of Company Common Stock were pledged by any director or executive officer.

Tax Deductibility

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") generally limits the corporate tax deduction for compensation paid to the Chief Executive Officer and the three other most highly compensated executives (other than the Chief Financial Officer) to \$1.0 million annually, unless certain requirements are satisfied. To maximize the corporate tax deduction, our incentive plans in 2017 were designed so that certain awards under those plans could comply with the requirements of Section 162(m) of the Code. As the \$1.0 million limit does not apply to compensatory amounts that qualify as performance-based compensation under Section 162(m), certain of our performance-based awards made pursuant to these plans were intended to qualify for corporate tax deductibility. The ability to rely on this performance-based compensation exclusion was generally eliminated in connection with the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") that was enacted on December 22, 2017 and the limitation on deductibility generally was expanded to include all named executive officers, including the Chief Financial Officer position, which was a function that was previously excluded from the then existing provisions set forth in the Code. As a result, the Company may no longer take a deduction for any compensation paid to its named executive officers to the extent NEO compensation is in excess of \$1.0 million, unless it qualifies for transition relief applicable to certain arrangements in place as of November 2, 2017. As a general matter, in making its previous NEO compensation decisions, the Compensation Committee endeavored to maximize deductibility of compensation under Section 162(m) to the extent practicable while maintaining competitive compensation; however, the Compensation Committee believes that it is important for it to retain maximum flexibility in designing compensation programs that are in the best interests of the Company and its stockholders, which may result in uncertainty and ambiguity with respect to the application and interpretation of the provisions set forth in Section 162(m) of the Code as amended by the enactment of the 2017 Tax Act. Furthermore, the Compensation Committee intends to continue its use of performance-based compensation to the extent that compliance with Code requirements does not conflict with the Company's compensation objectives. In some cases, the Compensation Committee believes the loss of some portion of a corporate tax deduction may be necessary and appropriate in order to provide the compensation necessary to attract and retain qualified executives.

Retirement Plans

We have established and maintain a retirement savings plan under Section 401(k) of the Code to cover our eligible employees, including our executive officers. The Code allows eligible employees to defer a portion of their compensation, within prescribed limits, on a tax deferred basis through contributions to the 401(k) plan. Our 401(k) plan is intended to constitute a qualified plan under Section 401(a) of the Code and its associated trust is intended to be exempt from federal income taxation under Section 501(a) of the Code. We make contributions on behalf of certain executive officers consistent with Company contributions to all eligible non-executive employees.

Severance Benefits

In order to retain the ongoing services of our NEOs, we have provided the assurance and security of severance benefits and change in control payments, which are described below under the caption “Employment Contracts and Equity Agreements, Termination of Employment and Change in Control Arrangements.”

We believe that these severance benefits and change in control payments reflect the fact that it may be difficult for such executives to find comparable employment within a short period of time and that providing such benefits should eliminate, or at least reduce, the reluctance of senior executives to pursue potential change in control transactions that may be in the best interests of stockholders. We believe that these benefits are appropriate in size relative to the overall value of the Company.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based upon such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Members of the Compensation Committee:

Geoffrey P. Judge (Chair)
Ronald V. Congemi
Linster W. Fox
E. Miles Kilburn
Eileen F. Raney
Maureen T. Mullarkey

Compensation of Named Executive Officers

2018 Summary Compensation Table

The following table sets forth the total compensation earned for services rendered in 2018 by the NEOs.

Name and principal position	Year	Salary	Bonus	Stock awards ⁽¹⁾⁽²⁾	Option awards ⁽¹⁾	Non-equity incentive plan compensation ⁽³⁾	All other compensation ⁽⁴⁾	Total
Michael D. Rumbolz	2018	\$ 700,000	\$ —	\$ 2,988,000	\$ —	\$ 535,000	\$ 17,718	\$ 4,240,718
President and Chief Executive Officer	2017	614,795	—	266,400	712,316	603,497	9,787	2,206,795
	2016	507,692	—	—	601,162	132,377	17,348	1,258,579
Randy L. Taylor	2018	475,000	—	1,195,200	—	285,000	16,748	1,971,948
Executive Vice President, Chief Financial Officer	2017	411,096	—	—	405,842	254,365	9,793	1,081,096
	2016	400,000	—	—	215,959	65,000	9,779	690,738
Dean A. Ehrlich⁽⁵⁾	2018	400,000	—	560,250	—	220,000	15,910	1,196,161
Executive Vice President, Games Business Leader	2017	400,000	—	—	405,842	197,300	7,366	1,010,508
			—					
Edward A. Peters	2018	400,000	—	448,200	—	265,000	16,751	1,129,951
Executive Vice President, Sales Marketing	2017	400,000	—	—	405,842	198,650	65,714	1,070,206
	2016	400,000	—	—	215,959	55,000	16,198	687,157
Harper H. Ko⁽⁶⁾	2018	350,000	—	373,500	—	220,000	10,416	953,917
Executive Vice President, Chief Legal Officer, General Counsel and Corporate Secretary								

- (1) Represents the fair value of the stock and option awards granted to the NEOs, as calculated in accordance with FASB ASC Topic 718, Stock Compensation. For a discussion of the assumptions made in determining the valuation of these equity awards, see our notes to the financial statements in the Company's Annual Report on Form 10-K for the years ended December 31, 2018, 2017 and 2016.
- (2) The restricted stock units granted in 2018 were comprised of both time- and performance-based awards: (a) with 40% of those restricted stock units granted in 2018 being time-based awards that will vest ratably over a period of four years; and (b) with 60% of those restricted stock units granted in 2018 being performance-based awards and vesting will be evaluated by our Compensation Committee of our Board after a performance period, beginning on the date of grant through December 31, 2020, as a result of certain revenue and AEBITDA growth rate metrics being met, with achievement of each measure to be determined independently of one another. If the performance criteria of the metrics have been achieved and are then approved by our Compensation Committee, the eligible awards will become vested on the third anniversary of the grant dates.
- (3) Represents the amount of non-equity incentive compensation earned under the Company's annual short-term incentive plan for the fiscal year. Amounts earned for a particular calendar year are typically paid to the NEOs in the first quarter of the following fiscal year.
- (4) Includes contributions made by the Company under its 401(k) plan and cost of short-term and long-term disability coverage. We make contributions on behalf of certain executive officers consistent with Company contributions to all eligible non-executive employees.

- (5) Mr. Ehrlich has served as our Executive Vice President, Games Business Leader since January 2017, having previously served as an Executive Consultant to the Company since August 2016.
- (6) Ms. Ko has served as our Executive Vice President, Chief Legal Officer, General Counsel, and Corporate Secretary since December 2017.

Grants of Plan-Based Awards

The following table sets forth certain information concerning grants of plan-based awards made to each NEO for the fiscal year ended December 31, 2018:

Name	Grant Date	Estimated future payouts under non-equity incentive plan compensation ⁽¹⁾			Estimated future payouts under equity incentive plan compensation ⁽²⁾			All Other Stock Awards: Number of Shares of Stock Units (#) ⁽³⁾	Grant date fair value of RSUs awarded (\$) ⁽⁴⁾
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
Michael D. Rumbolz		\$ —	\$ 700,000	\$ 1,050,000	—	—	—	—	\$ —
	5/22/2018	—	—	—	120,000	240,000	480,000	160,000	2,988,000
Randy L. Taylor		—	356,250	712,500	—	—	—	—	—
	5/22/2018	—	—	—	48,000	96,000	192,000	64,000	1,195,200
Dean A. Ehrlich		—	300,000	600,000	—	—	—	—	—
	5/22/2018	—	—	—	22,500	45,000	90,000	30,000	560,250
Edward A. Peters		—	300,000	600,000	—	—	—	—	—
	5/22/2018	—	—	—	18,000	36,000	72,000	24,000	448,200
Harper H. Ko		—	262,500	525,000	—	—	—	—	—
	5/22/2018	—	—	—	15,000	30,000	60,000	20,000	373,500

- (1) Represents amounts potentially payable to the NEOs under the Company's annual cash incentive plan. A more detailed discussion of how the target is determined and calculated is found in the CD&A above.
- (2) The number of performance-based RSUs that are ultimately earned will range from 0% to 200% of the target number shown above. The number earned will be based upon the attainment of Revenue Growth goals and AEBITDA Growth goals measured over the three-year period ending on December 31, 2020. The Revenue Growth goals and AEBITDA Growth goals will apply to 50% of the target number of performance-based RSUs in the table above. The parameters set forth in the grant notice for these performance-based restricted stock unit awards are as follows:

	Weighting	Performance Ranges				Performance-based RSUs Earned (as a percent of target)			
		Below Threshold	Threshold	Target	Maximum	Below Threshold	Threshold	Target	Maximum
Revenue Growth	50%	< 6.3%	6.3%	7.9%	9.5%	0%	50%	100%	200%
AEBITDA Growth	50%	< 7.7%	7.7%	9.6%	11.5%	0%	50%	100%	200%

- (3) Time-based RSUs vest at a rate of 25% per year over the four years from the date of grant.
- (4) Represents the total fair value of the NEOs' restricted stock unit awards granted to the NEOs, as calculated in accordance with FASB ASC Topic 718 Stock Compensation. For a discussion of the assumptions made in the valuation, please see the notes to the financial statements in the Company's Annual Report on Form 10-K for the years ended December 31, 2018, 2017 and 2016.

Outstanding Equity Awards

The following table sets forth certain information for our NEOs concerning unexercised stock options, unvested restricted stock and equity incentive plan awards outstanding at December 31, 2018:

Name	Date Granted	Option awards				Stock awards			
		Number of securities underlying unexercised exercisable options	Number of securities underlying unexercised unexercisable options	Number of securities underlying unexercised unearned options	Option exercise price	Option expiration date	Number of shares or units of unvested unearned stock	Number of shares or units of unearned unvested stock	Market value of shares or units of stock that have not vested
Michael D. Rumbolz	8/30/2010	100,000	—	—	\$ 3.72	8/30/2020	—	—	\$ —
	3/1/2011	40,000	—	—	3.41	3/1/2021	—	—	—
	3/2/2012	40,000	—	—	5.58	3/2/2022	—	—	—
	3/6/2013	19,424	—	—	7.09	3/6/2023	—	—	—
	5/2/2014	50,000	—	—	6.59	5/2/2024	—	—	—
	4/22/2015	37,500	12,500 ⁽¹⁾	—	7.74	4/22/2025	—	—	—
	2/13/2016	465,116	—	—	2.78	2/13/2026	—	—	—
	3/8/2017	62,326	—	186,976 ⁽²⁾	3.29	3/8/2027	—	—	—
	3/8/2017	30,698	92,093 ⁽¹⁾	—	3.29	3/8/2027	—	—	—
	5/5/2017	—	—	—	—	—	8,330 ⁽³⁾	—	42,900
	5/22/2018	—	—	—	—	—	160,000 ⁽¹⁾	—	824,000
	5/22/2018	—	—	—	—	—	—	240,000 ⁽⁴⁾	1,236,000
	Randy L. Taylor	12/7/2011	15,000	—	—	4.57	12/7/2021	—	—
3/2/2012		16,875	—	—	5.58	3/2/2022	—	—	—
3/6/2013		11,859	—	—	7.09	3/6/2023	—	—	—
5/2/2014		100,000	—	— ⁽⁷⁾	6.59	5/2/2024	—	—	—
4/22/2015		—	—	400,000 ⁽⁵⁾	7.74	4/22/2022	—	—	—
5/13/2016		88,776	—	88,774 ⁽⁶⁾	1.46	5/13/2026	—	—	—
5/13/2016		43,726	43,724 ⁽¹⁾	—	1.46	5/13/2026	—	—	—
3/8/2017		35,510	—	106,530 ⁽²⁾	3.29	3/8/2027	—	—	—
3/8/2017		17,490	52,470 ⁽¹⁾	—	3.29	3/8/2027	—	—	—
5/22/2018		—	—	—	—	—	64,000 ⁽¹⁾	—	329,600
5/22/2018		—	—	—	—	—	—	96,000 ⁽⁴⁾	494,400
Dean A. Ehrlich	12/8/2016	21,450	21,450 ⁽¹⁾	—	2.40	12/8/2026	—	—	—
	12/8/2016	43,550	—	43,550 ⁽⁵⁾	2.40	12/8/2026	—	—	—
	3/8/2017	17,490	52,470 ⁽¹⁾	—	3.29	3/8/2027	—	—	—
	3/8/2017	35,510	—	106,530 ⁽²⁾	3.29	3/8/2027	—	—	—
	5/22/2018	—	—	—	—	—	30,000 ⁽¹⁾	—	154,500
	5/22/2018	—	—	—	—	—	—	45,000 ⁽⁴⁾	231,750
Edward A. Peters	12/4/2014	300,000	—	—	7.61	12/4/2024	—	—	—
	4/22/2015	—	—	200,000 ⁽⁵⁾	7.74	4/22/2022	—	—	—
	5/13/2016	21,863	43,724 ⁽¹⁾	—	1.46	5/13/2026	—	—	—
	5/13/2016	44,388	—	88,774 ⁽⁶⁾	1.46	5/13/2026	—	—	—
	3/8/2017	17,490	52,470 ⁽¹⁾	—	3.29	3/8/2027	—	—	—
	3/8/2017	35,510	—	106,530 ⁽²⁾	3.29	3/8/2027	—	—	—
	5/22/2018	—	—	—	—	—	24,000 ⁽¹⁾	—	123,600
	5/22/2018	—	—	—	—	—	—	36,000 ⁽⁴⁾	185,400
Harper H. Ko	12/29/2017	20,625	61,875 ⁽¹⁾	—	7.54	12/29/2027	—	—	—
	12/29/2017	—	—	27,500 ⁽⁶⁾	7.54	12/29/2027	—	—	—
	5/22/2018	—	—	—	—	—	20,000 ⁽¹⁾	—	103,000
	5/22/2018	—	—	—	—	—	—	30,000 ⁽⁴⁾	154,500

(1) These equity awards vest ratably over the first four anniversaries of the grant date.

- (2) These equity awards vest at a rate of 25% per year on each of the first four anniversaries of the grant date, provided that as of the vesting date for each vesting tranche, the closing price of the Company's shares on the NYSE is at least a specified price hurdle of \$4.11, defined as a 25% premium to the closing stock price on the grant date. If the price hurdle is not met as of the vesting date for a vesting tranche, then such tranche shall vest and become vested shares on the last day of a period of 30 consecutive trading days during which the closing price is at least the price hurdle. If these target prices are not met during the life of the grant, the unvested shares underlying the options will terminate, except upon the termination of service without cause or by the participant without good reason within ten days prior to, or within eighteen months after a change in control of the Company as defined in the Amended 2014 Plan, in which case, the unvested shares underlying such options shall become fully vested on the effective date of such change in control.
- (3) These equity awards vest over two years from the date of grant, with an equal number of shares vesting each monthly period.
- (4) These equity awards have vesting conditions that will be evaluated by our Compensation Committee of our Board after a performance period, beginning on the date of grant through December 31, 2020, as a result of certain revenue and AEBITDA growth rate metrics being met, with achievement of each measure to be determined independently of one another. If the performance criteria of the metrics have been achieved and are then approved by our Compensation Committee, the eligible awards will become vested on the third anniversary of the grant dates. The parameters set forth in the grant notice for these performance-based restricted stock unit awards are as follows:

	Weighting	Performance Ranges				Performance-based RSUs Earned (as a percent of target)			
		Below Threshold	Threshold	Target	Maximum	Below Threshold	Threshold	Target	Maximum
Revenue Growth	50%	< 6.3%	6.3%	7.9%	9.5%	0%	50%	100%	200%
AEBITDA Growth	50%	< 7.7%	7.7%	9.6%	11.5%	0%	50%	100%	200%

- (5) These equity awards vest if our average stock price in any period of 30 consecutive trading days meets certain target prices of \$18 and \$21 per share during a four-year period that commenced on the date of grant for these options. These equity awards will expire on the seventh anniversary of the date of grant, except upon the termination of service without cause within ten days prior to, or within eighteen months after a change in control of the Company as defined in the Amended 2014 Plan, in which case, the unvested shares underlying such options shall become fully vested on the effective date of such change in control.
- (6) These equity awards vest at a rate of 25% per year on each of the first four anniversaries of the grant date, provided that as of the vesting date for each vesting tranche, the closing price of the Company's shares on the NYSE is at least a specified price hurdle of \$2.19, defined as a 50% premium to the closing stock price on the grant date. If the price hurdle is not met as of the vesting date for a vesting tranche, then such tranche shall vest and become vested shares on the last day of a period of 30 consecutive trading days during which the closing price is at least the price hurdle. If these target prices are not met during the life of the grant, the unvested shares underlying the options will terminate, except upon the termination of service without cause or by the participant without good reason within ten days prior to, or within eighteen months after a change in control of the Company as defined in the Amended 2014 Plan, in which case, the unvested shares underlying such options shall become fully vested on the effective date of such change in control.
- (7) The market-based option awards of 120,000 were canceled in 2018 due to not meeting the vesting requirements related to the option award granted in 2014.

2018 Option Exercises and Stock Vested

The following table sets forth certain information concerning the exercise of stock options, and the vesting of restricted stock, for each NEO for the fiscal year ended December 31, 2018:

Name	Option Awards		Stock Awards	
	Number of shares acquired on exercise	Value realized on exercise ⁽¹⁾	Number of shares acquired on vesting	Value realized on vesting ⁽²⁾
Michael D. Rumbolz	85,000	\$ 190,850	20,001	\$ 148,608
Randy L. Taylor	—	—	11,000	76,010
Edward A. Peters	66,251	503,348	—	—
Dean A. Ehrlich	—	—	—	—
Harper H. Ko	—	—	10,000	49,400

(1) The value realized on exercise equals (i) the closing price of our Common Stock on the date of exercise minus the exercise price of options exercised, multiplied by (ii) the number of shares that were exercised.

(2) The value realized on vesting equals (i) the closing price of our Common Stock on the vesting date, multiplied by (ii) the number of shares that vested.

Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our employees and the annual total compensation of Mr. Rumbolz, our President and Chief Executive Officer. The pay ratio included in this information is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K.

For 2018, our last completed fiscal year:

- the median of the annual total compensation (inclusive of base salary, bonus and other items, as described below) of all our employees, other than Mr. Rumbolz, was \$68,204; and
- the annual total compensation of Mr. Rumbolz, as reported in the Summary Compensation Table included elsewhere in this Proxy Statement, was \$4,240,718.
- Based on this information, for 2018, the ratio of the annual total compensation of Mr. Rumbolz, our President and Chief Executive Officer, to the median of the annual total compensation of all employees was 62.2 to 1.

To identify the median of the annual total compensation of all our employees, as well as to determine the annual total compensation of the “median employee,” we took the following steps:

1. We determined that, as of December 31, 2018, we had approximately 1,250 employees, with approximately 93% and 7% of the individuals located domestically in the United States (the “U.S.”) and internationally in various foreign jurisdictions, respectively.
2. The relevant payroll and other compensation data for our employee population are maintained in a single system located at our principal headquarters in the U.S. and were utilized to identify the “median employee” from our employee population. To identify the “median employee” from our employee population, we compared the amount of base salary of our employees as reflected in our payroll records and included as part of the total compensation reported to the Internal Revenue Service on Form W-2 for 2018. We identified our median employee using this compensation measure, which was consistently applied to all our employees included in the calculation.

3. Once we identified our median employee, we combined all of the elements of such employee’s compensation for 2018 in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, resulting in the annual total compensation presented in the pay ratio calculation. The difference between such employee’s base salary and the employee’s annual total compensation represents company matching contributions on behalf of the employee to our 401(k) employee savings plan and cost of short-term and long-term disability coverage. Since we do not maintain a defined benefit or other actuarial plan for our employees, and do not otherwise provide a plan for payments or other benefits at, following, or in connection with retirement, the “median employee’s” annual total compensation did not include amounts attributable to those types of arrangements.

Name and principal position	Year	Salary	Bonus	Stock awards ⁽¹⁾	Option awards ⁽¹⁾	Non-equity incentive plan compensation ⁽²⁾	All other compensation ⁽³⁾	Total
Michael D. Rumbolz - President and Chief Executive Officer	2019	\$700,000	\$ —	\$2,988,000	\$ —	\$ 535,000	\$ 17,718	\$4,240,718
Median Employee ⁽⁴⁾	2019	66,209	—	—	—	—	1,995	68,204
Pay Ratio								62.2x

- (1) Represents the fair value of the equity awards, as calculated in accordance with FASB ASC Topic 718, Stock Compensation. For a discussion of the assumptions made in determining the valuation of the restricted stock awards, see our notes to the financial statements in the Company’s Annual Report on Form 10-K for the years ended December 31, 2018, 2017 and 2016.
- (2) Represents the amount of non-equity incentive compensation earned under the Company’s annual short-term incentive plan for the fiscal year. Amounts earned for a particular calendar year are typically paid to the NEOs in the first quarter of the following fiscal year.
- (3) Includes contributions made by the Company under its 401(k) plan as well as short-term and long-term disability payments made by the Company.
- (4) Represents the total annual compensation of the middle-most employee, excluding the President and Chief Executive Officer.

Employment Contracts and Equity Agreements, Termination of Employment and Change in Control Arrangements

The Company is a party to employment agreements with our NEOs, which provide that, in the event of the termination of the executive’s employment by the Company, the executive is entitled to the severance benefits described below. The severance benefits discussed above are all subject to the executive’s execution of a release of claims in favor of the Company. The employment agreements contain restrictive covenants not to compete with our Company or solicit our employees for a period of two years immediately following termination of employment, subject to certain exceptions, as well as confidentiality and preservation of intellectual property obligations.

Mr. Rumbolz:

In the event of termination by the Company without cause or by the executive for good reason (as such terms are defined in the employment agreement), Mr. Rumbolz’s employment agreement provides for twenty-four months of salary continuation; and continued group health insurance for the executive and the executive’s eligible dependents over eighteen months. The employment agreement defers to the equity grants with respect to treatment of outstanding awards in connection with a termination of employment or a Change in Control (as defined in the Amended 2014 Plan) which provide for accelerated vesting in full of all unvested equity awards in the event of termination of the executive’s employment by the Company without cause or by the executive for good reason for 2016 and 2017 equity awards, within eighteen months following a Change in Control event, and for the 2018 and 2019 equity awards, within twenty-four months of a Change in Control event. In the event of death or incapacity, Mr. Rumbolz is entitled to base salary and employee benefits earned through the date of such death or incapacity, and, for the remainder of the term of his agreement, periodic disability payments equal to sixty percent of his then-current base salary at the time of such death or incapacity. Beginning February 1, 2021, Mr. Rumbolz’s employment agreement will renew for one year periods on February 1st of each year, unless either party provides 6 months’ notice of nonrenewal.

Messrs. Taylor and Peters:

In the event of termination by the Company without cause or by the executive for good reason, Messrs. Taylor's and Peters' employment agreements each provides for twelve months of salary continuation plus one times the executive's target bonus amount for the year of termination payable over twelve months; continued group health insurance for the executives and the executives' eligible dependents over twelve months; and accelerated vesting in full of all unvested time-based equity awards. The employment agreements also provide for accelerated vesting of all unvested equity awards in the event of Change in Control. All equity grants subject to the single-trigger acceleration benefit have either vested or, with respect to certain market-based equity grants, as of December 31, 2018, the Closing Price (as such term is defined in the agreement) has not equaled or exceeded the Price Hurdle (as such term is defined in the agreement). Equity grant agreements in 2015, 2016, and 2017 provide for accelerated vesting in full of all unvested equity awards in the event of both a Change in Control and a termination of the executive's employment by the Company without cause or by the executive for good reason within ten days prior to, or within eighteen months of a Change in Control event. Equity grant agreements in 2018 provide for accelerated vesting in full of all unvested equity awards in the event of both a Change in Control and a termination of the executive's employment by the Company without cause or by the executive for good reason within twenty-four months of a Change in Control event. In the event of death or incapacity, Messrs. Taylor and Peters are entitled to base salary and employee benefits earned through the date of such death or incapacity.

Mr. Ehrlich:

In the event of termination by the Company without cause or by the executive for good reason, Mr. Ehrlich's employment agreement provides for twelve months of salary continuation plus one times his target bonus amount for the year of termination payable over twelve months; and continued group health insurance for the executive and the executive's eligible dependents over twelve months. Equity grant agreements in 2016 and 2017 provide for accelerated vesting in full of all unvested equity awards in the event of termination of the executive's employment by the Company without cause or by the executive for good reason for the 2017 equity award, within eighteen months following a Change in Control event, and for the 2018 equity award, within twenty-four months following a Change in Control event. In the event of death or incapacity, Mr. Ehrlich is entitled to base salary and employee benefits earned through the date of such death or incapacity. Mr. Ehrlich's employment agreement will renew for one year periods on January 1st of each year, unless either party provides six months' notice of nonrenewal.

Ms. Ko:

In the event of termination by the Company without cause or by the executive for good reason (as such terms are defined in the employment agreement), Ms. Ko's employment agreement provides for twelve months of salary continuation plus one times the executive's target bonus amount for the year of termination payable over twelve months; continued group health insurance for the executive and the executive's eligible dependents over eighteen months; accelerated vesting in full of all unvested equity awards granted on the Effective Date (as such term is defined in the agreement); provided that, in the case of market-based equity awards, the Closing Price (as such term is defined in the agreement) equals or exceeds the Price Hurdle (as such term is defined in the agreement) with respect to such award. Equity grant agreements provide accelerated vesting in full of all unvested equity awards in the event of termination of the executive's employment by the Company without cause or by the executive for good reason: as an additional acceleration trigger for that equity granted as of the Effective Date, within eighteen months following a Change in Control event, and for the 2018 equity award, within twenty-four months following a Change in Control event. In the event of death or incapacity, Ms. Ko is entitled to base salary and employee benefits earned through the date of such death or incapacity. Beginning December 29, 2020, Ms. Ko's employment agreement will renew for one-year periods on December 29th of each year, unless either party provides six months' notice of nonrenewal.

Treatment of Equity Upon a Termination Without Cause or For Good Reason or in Connection with a Change in Control

The following table sets forth the estimated payments and benefits to the NEOs based upon: (i) a hypothetical termination without cause by the Company or for good reason by the executive on December 31, 2018 that is not in connection with a Change in Control event; (ii) a hypothetical Change in Control event on December 31, 2018; and (iii) a hypothetical termination without cause by the Company or for good reason on December 31, 2018 by the executive in connection with a Change in Control event:

Name	Termination without Cause or For Good Reason				Change in Control Event	Termination without Cause or For Good Reason following a Change in Control Event			
	Cash Payment (1)	Benefits (2)	Acceleration of Stock and Options (3)	Total	Acceleration of Stock and Options (3)	Cash Payment (1)	Benefits (2)	Acceleration of Stock and Options (3)	Total
Michael D. Rumbolz	\$ 1,400,000	\$ 26,666	\$ —	\$ 1,426,666	\$ —	\$ 1,400,000	\$ 26,666	\$ 2,621,968	\$ 4,048,634
Randy L. Taylor	831,250	33,885	—	865,135	—	831,250	33,885	1,608,658	2,473,792
Edward A. Peters	700,000	32,103	—	732,103	—	700,000	32,103	1,093,658	1,825,761
Dean A. Ehrlich	700,000	30,019	—	730,019	—	700,000	30,019	860,740	1,590,759
Harper H. Ko	612,500	42,515	—	655,015	—	612,500	42,515	257,500	912,515

- (1) Based on the NEO's salary and target bonus in effect at the date of termination.
- (2) Estimated value of continued coverage under group health insurance plans through the end of the applicable severance period.
- (3) The value attributable to the hypothetical acceleration of the vesting of any restricted stock awards held by a NEO is determined by multiplying the number of unvested shares of restricted stock accelerated by \$5.15 (the closing price of our Common Stock on December 28, 2018). The value attributable to the hypothetical acceleration of the vesting of any stock option awards held by a NEO is determined by multiplying (i) the difference, if greater than zero, between the exercise price of the applicable stock option award and the closing price of our Common Stock on December 28, 2018 of \$5.15 by (ii) the number of unvested shares underlying the applicable stock option. The equity awards held by the NEO that are subject to possible acceleration are described as unexercisable or not vested in the table entitled "Outstanding Equity Awards at December 31, 2018."

Pension Benefits and Nonqualified Deferred Compensation

We do not currently offer, nor do we have plans to provide, pension arrangements, retirement plans or nonqualified deferred compensation plans or arrangements to our executives, other than the retirement benefits generally available to employees.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to the Company with respect to the beneficial ownership as of March 25, 2019 (except as otherwise noted in the footnotes to the table) by: (i) all persons who are beneficial owners of 5% or more of our Common Stock; (ii) each director and nominee; (iii) each of our NEOs; and (iv) all current directors and executive officers as a group.

There were 70,613,515 shares of our Common Stock issued and outstanding as of the close of business on March 25, 2019. The amounts and percentages of our Common Stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the SEC rules, a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of such security, or “investment power,” which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days of the close of business on March 25, 2019. Under these rules, more than one person may be deemed a beneficial owner of securities as to which such person has no economic interest.

Name	Shares Beneficially Owned	
	Number	Percentage ⁽¹⁾
Principal stockholders		
Indaba Capital Management, L.P. ⁽²⁾	7,009,118	9.9%
Eagle Asset Management, Inc. ⁽³⁾	5,929,002	8.4%
BlackRock, Inc. ⁽⁴⁾	4,785,799	6.8%
Private Capital Management, LLC ⁽⁵⁾	3,854,840	5.5%
Directors and named executive officers⁽⁶⁾		
Michael D. Rumbolz ⁽⁷⁾	1,094,293	1.5%
E. Miles Kilburn ⁽⁸⁾	700,531	*
Edward A. Peters ⁽⁹⁾	550,500	*
Randy L. Taylor ⁽¹⁰⁾	517,946	*
Geoffrey P. Judge ⁽¹¹⁾	420,347	*
Ronald V. Congemi ⁽¹²⁾	302,251	*
Dean A. Ehrlich ⁽¹³⁾	178,500	*
Eileen F. Raney ⁽¹⁴⁾	164,000	*
Linster W. Fox ⁽¹⁵⁾	105,000	*
Harper H. Ko ⁽¹⁶⁾	33,190	*
Maureen T. Mullarkey ⁽¹⁷⁾	—	*
Directors and current named executive officers as a group (11 persons)	4,066,558	5.5%

* Represents beneficial ownership of less than 1%.

- (1) The percentage of beneficial ownership as to any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person, which includes the number of shares as to which such person has the right to acquire voting or investment power within 60 days after such date, by the sum of the number of shares outstanding as of such date plus the number of shares as to which such person has the right to acquire voting or investment power within 60 days after such date. Consequently, the numerator and denominator for calculating beneficial ownership percentages may be different for each beneficial owner.
- (2) As reported on Schedule 13G filed on February 14, 2019 for shares held by Indaba Capital Management, L.P. (“Indaba”) jointly on behalf of Indaba, IC GP, LLC (“IC”), and Derek C. Schrier. According to Schedule 13G, Indaba, IC and Mr. Schrier all have shared voting and dispositive power over all 7,009,118 shares. The address for Indaba is One Letterman Drive, Building D, Suite DM700, San Francisco, California 94129.
- (3) As reported on Schedule 13G/A filed on January 11, 2019 for shares held by Eagle Asset Management, Inc. (“Eagle”) on its own behalf. According to Schedule 13G/A, Eagle has sole voting and dispositive power over all 5,929,002 shares. The address for Eagle is 880 Carillon Parkway, St. Petersburg, FL 33716.

- (4) As reported on Schedule 13G/A filed on February 4, 2019 for shares held by BlackRock, Inc. (“BlackRock”) on its own behalf. According to the Schedule 13G/A, BlackRock has sole voting power over 4,651,944 shares and sole dispositive power over all 4,785,799 shares. The address for BlackRock is 55 East 52nd Street, New York, NY 10055.
- (5) As reported on Schedule 13G/A filed on February 8, 2019 for shares held by Private Capital Management, LLC (“Private Capital”) on its own behalf. According to the Schedule 13G/A, Private Capital has sole voting and dispositive power over 980,546 shares and shared voting and dispositive power over 2,874,294 shares. The address for Private Capital is 8889 Pelican Bay Boulevard, Suite 500, Naples, Florida 34108.
- (6) Includes shares owned and shares issuable upon exercise of stock options that are currently exercisable or exercisable within 60 days.
- (7) Consists of 143,705 shares owned by Mr. Rumbolz and 950,588 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Mr. Rumbolz.
- (8) Consists of 207,645 shares owned by Mr. Kilburn and 492,886 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Mr. Kilburn.
- (9) Consists of 12,000 shares owned by Mr. Peters and 538,500 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Mr. Peters.
- (10) Consists of 69,461 shares owned by Mr. Taylor and 448,485 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Mr. Taylor.
- (11) Consists of 104,672 shares owned by Mr. Judge and 315,675 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Mr. Judge.
- (12) Consists of 16,000 shares owned by Mr. Congemi and 286,251 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Mr. Congemi.
- (13) Consists of 7,500 shares owned by Mr. Ehrlich and 171,000 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Mr. Ehrlich.
- (14) Consists of 59,000 shares owned by Ms. Raney and 105,000 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Ms. Raney.
- (15) Consists of 105,000 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Mr. Fox.
- (16) Consists of 12,565 shares owned by Ms. Ko and 20,625 shares issuable upon the exercise of stock options that are currently exercisable or exercisable within 60 days for Ms. Ko.
- (17) As of the date of this filing, Ms. Mullarkey is not a beneficial owner of any securities nor does she have a right to acquire beneficial ownership within 60 days.

PROPOSAL 3

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Item No. 3 on the Proxy Card)

Ratification of BDO USA, LLP

The Board has appointed BDO USA, LLP to serve as the Company's independent registered public accounting firm for the Company's fiscal year ending December 31, 2019.

Our Board and Audit Committee engaged BDO USA, LLP, effective March 18, 2015, as our independent registered public accounting firm, beginning with the audit for the year ending December 31, 2015, including the 2015 quarterly reviews.

Although the Company is not required to seek stockholder approval of its selection of an independent registered public accounting firm, the Board believes it to be sound corporate governance to do so. If the appointment is not ratified, the Board will investigate the reasons for stockholder rejection and will reconsider its selection of its independent registered public accounting firm. However, because of the difficulty in making any substitution so long after the beginning of the current year, the appointment of BDO USA, LLP for fiscal 2019 will stand, unless the Audit Committee finds other good reason for making a change and doing so is in the best interests of the Company and its stockholders. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the fiscal year if the Audit Committee determines that such a change would be in the Company's and its stockholders' best interests. Proxies solicited by our Board will, unless otherwise directed, be voted to ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2019.

Attendance at Annual Meeting

A representative of BDO USA, LLP is expected to be present at the Annual Meeting, will have an opportunity to make a statement, if he or she so desires, although we do not expect him or her to do so, and will be available to respond to appropriate questions from stockholders.

THE BOARD UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019.

Audit and Non-Audit Fees

The following table represents fees invoiced for professional audit services rendered by BDO USA, LLP, our independent registered public accounting firm for the years ended December 31, 2018 and 2017, for the audit of the Company's annual financial statements and fees invoiced for other services rendered by BDO USA, LLP for each respective year (amounts in thousands):

	Year Ended December 31,	
	2018	2017
Audit fees ⁽¹⁾	\$ 1,193	\$ 1,303
Audit-related fees ⁽²⁾	48	55
Tax fees ⁽³⁾	7	—
Total	\$ 1,248	\$ 1,358

(1) Audit fees include amounts for the following professional services:

- audit of the Company's annual financial statements for fiscal years 2018 and 2017;
- attestation services, technical consultations and advisory services in connection with Section 404 of the Sarbanes-Oxley Act of 2002;
- reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q;
- statutory and regulatory audits, consents and other services related to SEC matters; and
- professional services provided in connection with other statutory and regulatory filings.

- (2) Audit-related fees include amounts for the following professional services:
- audit of the Company's employee benefit program;
 - evaluations of service organization controls under the Statement on Standards for Attestation Engagements (SSAE) No. 18; and
 - professional services provided in connection with proposed accounting and reporting standards.
- (3) Tax Fees include amounts for planning (domestic and international), advisory and compliance services.

In making its recommendation to ratify the appointment of BDO USA, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2019, the Audit Committee has considered whether services other than audit and audit-related services provided by BDO USA, LLP are compatible with maintaining the independence of BDO USA, LLP.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee pre-approves all audit and permissible non-audit services provided by its independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by its independent registered public accounting firm. Under the policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. For each proposed service, the independent registered public accounting firm is required to provide detailed back-up documentation at the time of approval. The hours expended on the engagement to audit the Company's financial statements for fiscal year 2018 were not attributed to work performed by persons other than BDO USA, LLP's full-time, permanent employees. All of the services described in the table above were approved in conformity with the Audit Committee's pre-approval process for independent registered public accounting firm fees.

REPORT OF THE AUDIT COMMITTEE

The information contained in the following report shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference in such filing.

The Audit Committee of the Board currently consists of Messrs. Kilburn, Fox, Judge, and Congemi and Meses. Raney and Mullarkey. Mr. Fox serves as Chair of the Audit Committee. The Board has determined that each member of the Audit Committee meets the experience requirements of the rules and regulations of the NYSE and the SEC, as currently applicable to the Company. The Board has also determined that each member of the Audit Committee meets the independence requirements of the rules and regulations of the NYSE and the SEC, as currently applicable to the Company.

The Audit Committee operates under a written charter approved by the Board. A copy of the charter is available on our website at ir.everi.com/investor-relations/corporate-governance/governance-documents.

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing financial reports and other financial information provided by the Company to any governmental body or the public, the Company’s systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established, and the Company’s auditing, accounting and financial reporting processes generally. The Audit Committee annually recommends to the Board the appointment of an independent registered public accounting firm to audit the consolidated financial statements and internal controls over financial reporting of the Company and meets with such personnel of the Company to review the scope and the results of the annual audits, the amount of audit fees, the Company’s internal controls over financial reporting, the Company’s consolidated financial statements in the Company’s Annual Report on Form 10-K and other related matters.

The Audit Committee has reviewed and discussed with management the consolidated financial statements for fiscal year 2018 audited by BDO USA, LLP, the Company’s independent registered public accounting firm for its fiscal year ended December 31, 2018, and management’s assessment of internal controls over financial reporting. The Audit Committee has discussed with BDO USA, LLP various matters related to the financial statements, including those matters required to be discussed under the applicable standards of the Public Company Accounting Oversight Board. The Audit Committee has also received the written disclosures regarding auditors’ independence required by the Public Company Accounting Oversight Board’s applicable rules and has discussed with BDO USA, LLP its independence. Based upon such review and discussions, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 for filing with the SEC.

The Audit Committee and the Board also has recommended, subject to stockholder ratification, the selection of BDO USA, LLP as our independent registered public accounting firm for the year ending December 31, 2019.

Members of the Audit Committee:

Linster W. Fox (Chair)
E. Miles Kilburn
Geoffrey P. Judge
Ronald V. Congemi
Eileen F. Raney
Maureen T. Mullarkey

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and any persons who directly or indirectly hold more than 10% of our Common Stock ("Reporting Persons") to file reports of ownership and changes in ownership with the SEC. Reporting Persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received and written representations from certain Reporting Persons that no such forms were required, the Company believes that during fiscal year 2018, all Reporting Persons complied with the applicable filing requirements on a timely basis.

OTHER MATTERS

As of the date of this Proxy Statement, the Company knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is intended that proxies in the enclosed form will be voted in respect thereof in accordance with the judgments of the person voting the proxies.

ANNUAL REPORT TO STOCKHOLDERS AND ANNUAL REPORT ON FORM 10-K

The 2018 Annual Report, including the Company's audited financial statements, is being delivered with this Proxy Statement, but is not incorporated into this Proxy Statement and is not to be considered a part of these proxy materials or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act. The information contained in the "Compensation Committee Report" and the "Report of the Audit Committee" shall not be deemed "filed" with the SEC or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act.

We will provide a copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, to each stockholder as of the Record Date, without charge, upon written request to **Corporate Secretary, Everi Holdings Inc., 7250 South Tenaya Way, Suite 100, Las Vegas, Nevada, 89113, or via e-mail to secretary@everi.com**. Any exhibits listed in the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 also will be furnished upon written request at the actual expense we incur in furnishing such exhibits.

By Order of the Board of Directors,

/s/ Michael D. Rumbolz

Michael D. Rumbolz
President and Chief Executive Officer

Las Vegas, Nevada
April 22, 2019

Appendix A
RECONCILIATION OF NON-GAAP MEASURES

The following table presents a reconciliation of our GAAP financial measure to AEBITDA, the most comparable non-GAAP financial measure included in this Proxy Statement:

	Year Ended December 31, 2018 Reconciliation of Net Income to EBITDA and AEBITDA
	(in thousands)
Net income	\$ 12,356
Income tax benefit	(9,710)
Loss on extinguishment of debt	166
Interest expense, net of interest income	83,001
Operating income	\$ 85,813
Plus: depreciation and amortization	126,470
EBITDA	\$ 212,283
Non-cash stock compensation expense	7,251
Accretion of contract rights	8,421
Non-recurring professional fees	408
Adjustment of certain purchase accounting liabilities	(550)
Write-off of inventory and fixed assets	2,575
AEBITDA	\$ 230,388

We present AEBITDA as we use this measure to manage our business and consider this measure to be supplemental to our operating performance. We also make certain compensation decisions based, in part, on our operating performance, as measured by AEBITDA; and our credit facility, senior secured notes and senior unsecured notes require us to comply with a consolidated secured leverage ratio that includes performance metrics substantially similar to AEBITDA. AEBITDA is not a measure of financial performance under GAAP. Accordingly, AEBITDA should not be considered in isolation, or as a substitute for, and should be read in conjunction with, our operating income data prepared in accordance with GAAP.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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: 001-32622

EVERI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

20-0723270

(I.R.S. Employer
Identification No.)

7250 S. Tenaya Way, Suite 100, Las Vegas, Nevada

(Address of principal executive offices)

89113

(Zip Code)

(800) 833-7110

(Registrant's telephone number, including area code)

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

Title of each class

Name of each exchange on which registered

Common Stock, \$0.001 par value per share

New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of June 29, 2018, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$500.2 million based on the closing sale price as reported on the New York Stock Exchange.

There were 70,320,028 shares of the registrant's common stock issued and outstanding as of the close of business on March 1, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Definitive Proxy Statement for its 2019 Annual Meeting of Stockholders (which is expected to be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's 2018 fiscal year) are incorporated by reference into Part III of this Annual Report on Form 10-K. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be a part of this Annual Report on Form 10-K.

EVERI HOLDINGS INC.
ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 2018

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In this filing, we refer to: (i) our audited consolidated financial statements and notes thereto as our “Financial Statements,” (ii) our audited Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as our “Statements of Income (Loss),” (iii) our audited Consolidated Balance Sheets as our “Balance Sheets,” and (iv) Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations as our “Results of Operations.”

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Everi Holdings Inc. (“Everi Holdings,” “Holdings,” or “Everi”) is a holding company, the assets of which are the issued and outstanding shares of capital stock of each of Everi Games Holding Inc. (“Everi Games Holding”), which owns all of the issued and outstanding shares of capital stock of Everi Games Inc. (“Everi Games” or “Games”), and Everi Payments Inc. (“Everi Payments”). Unless otherwise indicated, the terms the “Company,” “we,” “us,” and “our” refer to Everi Holdings together with its consolidated subsidiaries.

Our disclosure and analysis in this Annual Report on Form 10-K contain “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. From time to time, we also provide forward-looking statements in other materials we release to the public, as well as oral forward-looking statements. We have tried, wherever possible, to identify such statements by using words such as “goal,” “target,” “future,” “estimate,” “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “project,” “may,” “should,” “will,” “likely,” “will likely result,” “will continue,” “forecast,” “observe,” “strategy,” and other words and terms of similar meaning. The forward-looking statements in this Annual Report on Form 10-K reflect the Company’s current views with respect to future events and financial performance.

Forward-looking statements include, but are not limited to, statements regarding the following matters: trends in gaming establishment and patron usage of our products; benefits realized by using our products and services; product development, including the release of new game features and additional game and system releases in the future; regulatory approvals; gaming regulatory, card association, and statutory compliance; the implementation of new or amended card association and payment network rules; consumer collection activities; future competition; future tax liabilities; future goodwill impairment charges; international expansion; resolution of litigation; dividend policy; new customer contracts and contract renewals; future results of operations (including revenue, expenses, margins, earnings, cash flow and capital expenditures); future interest rates and interest expense; future borrowings; and future equity incentive activity and compensation expense.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and changes in circumstances that are often difficult to predict and many of which are beyond our control. Our actual results and financial condition may differ materially from those indicated in forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, without limitation:

- our history of net losses and our ability to generate profits in the future;
- our substantial leverage, restrictions under our indebtedness, and our ability to raise additional cash to fund operations, working capital, and capital expenditures, and to service all of our indebtedness;
- our ability to compete in the gaming industry, manage competitive pressures, navigate gaming market contractions, and continue operating in Native American gaming markets;
- our ability to protect our intellectual property rights;
- the impact of changes in U.S. federal corporate tax laws;
- our ability to maintain our current customers, replace revenue associated with terminated contracts, and address margin degradation from contract renewals;
- our ability to prevent, mitigate, or timely recover from cybersecurity breaches, attacks, and compromises;
- our ability to execute on mergers, acquisitions, or strategic alliances, including our ability to integrate and operate such acquisitions consistent with our forecasts;
- expectations regarding our existing and future installed base and win per day, our product portfolio, and development and placement fee arrangements;
- expectations regarding customers’, gaming establishments’, and patrons’ preferences and demands for future gaming offerings;

- national and international economic conditions, including the overall growth of the gaming industry, if any;
- our ability to comply with the Europay, MasterCard, and Visa global standard for cards equipped with security chip technology (“EMV”);
- technological obsolescence, expenditures, and product development, and our ability to introduce new products and services, including third-party licensed content;
- anticipated sales performance;
- employee turnover;
- changes in gaming regulatory, card association, and statutory requirements, as well as regulatory and licensing difficulties;
- operational limitations;
- uncertainty of litigation outcomes;
- business prospects;
- unanticipated expenses or capital needs, interest rate fluctuations, or inaccuracies in underlying operating assumptions; and
- those other risks and uncertainties discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 1A. Risk Factors” of this Annual Report on Form 10-K.

In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this Annual Report on Form 10-K will in fact transpire or prove to be accurate. Readers are cautioned to consider the specific risk factors described herein and in “Item 1A. Risk Factors” of this Annual Report on Form 10-K and not to place undue reliance on the forward-looking statements contained herein, which are based only on information currently available to us and speak only as of the date hereof.

We undertake no obligation to update or publicly revise any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. You are advised, however, to consult any further disclosures we make on related subjects in our reports and other filings with the Securities and Exchange Commission (the “SEC”).

PART I

Item 1. Business.

Overview

Everi is a leading supplier of technology solutions for the casino gaming industry. We provide casino operators with a diverse portfolio of products including innovative gaming machines that power the casino floor, and casino operational and management systems that include comprehensive end-to-end payments solutions, critical intelligence offerings, and gaming operations efficiency technologies.

Everi Holdings reports its results of operations based on two operating segments: Games and FinTech. Effective April 1, 2018, we changed the name of the operating segment previously referred to as “Payments” to “Financial Technology Solutions” (“Everi FinTech” or “FinTech”). We believe this reference more accurately reflects the focus of the business segment on delivering innovative and integrated solutions to enhance the efficiency of the casino operator, support the comprehensive regulatory and tax requirements of their gaming customers, and improve players’ gaming experience by providing easy access to their funds and payment of winnings.

Everi Games provides gaming operators products and services, including: (a) gaming machines primarily comprised of Class II and Class III slot machines placed under participation or fixed fee lease arrangements or sold to casino customers, including *TournEvent*® that allows operators to switch from in-revenue gaming to out-of-revenue tournaments; (b) system software, licenses, ancillary equipment, and maintenance; and (c) business-to-consumer and business-to-business interactive activities. In addition, Everi Games develops and manages the central determinant system for the video lottery terminals (“VLTs”) installed in the State of New York and it also provides similar technology in certain tribal jurisdictions.

Everi FinTech provides gaming operators cash access and related products and services, including: (a) access to cash at gaming facilities via Automated Teller Machine (“ATM”) cash withdrawals, credit card cash access transactions, point of sale (“POS”) debit card cash access transactions, and check verification and warranty services; (b) equipment that provides cash access and efficiency-related services; (c) products and services that improve credit decision making, automate cashier operations, and enhance patron marketing activities for gaming establishments; (d) compliance, audit, and data solutions; and (e) online payment processing solutions for gaming operators in states that offer intrastate, Internet-based gaming, and lottery activities.

Everi Holdings was formed as a Delaware limited liability company on February 4, 2004 and was converted to a Delaware corporation on May 14, 2004. Our principal executive offices are located at 7250 South Tenaya Way, Suite 100, Las Vegas, Nevada 89113. Our telephone number is (800) 833-7110. Our website address is www.everi.com. The information on our website is not part of this Annual Report on Form 10-K or our other filings with the SEC.

Our Business Segments

We report our financial performance, and organize and manage our operations, across the following two business segments: (a) Games; and (b) FinTech. For additional information on our segments and the revenues generated by our products and services see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations” and “Note 18 — Segment Information” included elsewhere in this Annual Report on Form 10-K.

Our Products and Services

Everi Games

Our Games products and services include commercial devices, such as Native American Class II offerings and other bingo products, Class III offerings, video lottery terminals, accounting and central determinant systems, and other back office systems. We conduct our Games segment business based on results generated from the following major revenue streams: (a) Gaming Operations; (b) Gaming Equipment and Systems; and (c) Gaming Other.

Gaming Operations

With respect to our Gaming Operations revenue stream, we primarily offer: (a) leased gaming equipment on a participation or a fixed daily fee basis; (b) local-area progressive machines; (c) wide-area progressive machines (“WAP”); (d) *TournEvent*® machines; (e) accounting and central determinant systems; and (f) interactive gaming activities.

In connection with our leased gaming equipment, we generally retain ownership of the machines installed at customer facilities. We receive recurring revenue based on a percentage of the net win per day generated by the leased gaming equipment or a fixed daily fee. We continue to expand our game placements into new jurisdictions, increase investment in research and development, and introduce premium game hardware and theme content. From our historical focus on placement of games into the Oklahoma and Washington tribal markets, Everi Games has diversified its installed base in recent years with entry into new commercial and tribal markets. Everi Games has grown premium game installations with approximately 2,859 units installed (representing approximately 20.4% of our installed base as of December 31, 2018) since entering the category approximately six years ago.

In connection with our WAP offering, machines placed under such arrangements fall into the leased gaming equipment category and we retain ownership of such machines. We debuted our first WAP in Class II markets in 2017 and are now operating in Class III tribal markets as well. Spanning three product lines, our WAP is offered to customers on the *Player Classic*, *Core HDX*, and *Empire MPX* cabinets. The original Class II offering, *Jackpot Lockdown*[®], debuted with two themes — *Jackpot Lockdown Mega Meltdown*[™] and *Jackpot Lockdown High Voltage*[™]. With the release of *Diamond Blaze*[™] along with multiple other product offerings active on the link, the original Class II offering has expanded to Everi's new premium sign package offering, *Renegade 3600*[™].

Gaming operations also include revenues generated under our arrangement to provide the New York State Gaming Commission with an accounting and central determinant system for the VLTs in operation at licensed State of New York gaming facilities. In January 2018, an amendment to the agreement between Everi Games and the New York State Gaming Commission was approved and became effective. Under this amendment, Everi Games will continue to provide and maintain the central determinant system for the New York Lottery through December 2019. As of December 31, 2018, this system is connected to approximately 18,500 VLTs and has the ability to interface with, provide outcomes to, and manage the VLTs. Pursuant to our agreement with the New York State Gaming Commission, we receive a portion of the network-wide net win (generally, cash-in less prizes paid) per day in exchange for provision and maintenance of the central determinant system. We also provide central determinant system technology to Native American tribes in other licensed jurisdictions for which we receive a portion of the revenue generated from the VLTs connected to the system.

In connection with our interactive activities, Everi operates in the following two areas: (a) business-to-consumer (“B2C”); and (b) business-to-business (“B2B”). B2C relates to games offered directly to consumers through our social, mobile application, which can be played using virtual currency. The Company earns revenues by providing the virtual currency to the consumers, or the players, whenever the consumers purchase additional virtual currency. This offering is limited to the area of free-to-play also referred to as social casinos, and is offered through connectivity with Facebook as well as mobile platforms such as the Apple App Store for Apple devices and the Google Play Store for Android devices. B2B relates to games offered to the online business partners who then offer the games to consumers. Everi has developed its own remote gaming server (“RGS”) leveraging our extensive library of land-based content that is delivered through the RGS. This library contains casino-themed social and mobile games, and games available for real money gaming (“RMG”) offered to the online business partners that operate in play-for-fun, or social casinos, and the regulated online casinos that operate in the RMG regulated markets. We enter into revenue share agreements with online business partners offering Everi's virtual games.

Gaming Equipment and Systems

With respect to our Gaming Equipment and Systems revenue stream, we enter into direct sales contracts generally for some combination of: (a) gaming equipment and player terminals, including *TournEvent*[®] machines; (b) game content; (c) license fees; (d) ancillary equipment; and (e) maintenance.

Gaming Other

With respect to our Gaming Other revenue stream, we offer our *TournEvent of Champions*[®] that allows winners of local and regional tournaments throughout the year to participate in a national tournament that results in the determination of a final champion.

Our Games products include:

Classic Mechanical Reel Games. Our full range of classic mechanical reel games provides players with a traditional, high denomination slot gaming experience. These games leverage our long-standing experience in building enduring brands, such as *Black Diamond*[®] and *Wild Wild Gems*[®], and feature a unique take on traditional slot games with eye-catching features. *Super Jackpot Series*[™] offers large linked progressives on the *Player Classic*[®] cabinet packaged with overhead signage to display rolling progressive meters and exciting win celebrations from across the casino floor. The premium *Skyline*[™] top box is a vintage-inspired bezel for the *Player Classic* cabinet showcasing red green blue lighting and a 24-inch liquid crystal display (“LCD”) panel, with titles including *Double Jackpot Gems*[®], *Kingmaker*[®], *Blazin' Gems*[®], and licensed brands, such as *Smokin' Hot Stuff*[®] and *Casper*[®].

Video Reel Games. We offer a growing range of dual-screen and portrait single screen video reel games that provide a uniquely entertaining slot gaming experience. The most recent released titles leverage *Core HDX*[®] and *Empire MPX*[™] cabinets (E43 and E5527) that deliver eye-catching graphics and full, rich sound. A range of progressive features round out our library in games on the E43, such as *Lighting Zap Jackpots*[™], *Diamond Rain*[®], *Diamond Rain Jackpot Wheel*[™], *Cash Money*[®], and *Diamond Money*[™]. The E5527 cabinet includes titles, such as *Smokin' Hot Stuff Wicked Wheel*[®], and the recently introduced *Shark Week* with the new Nitro[™] technology enabling display features across multiple devices.

Core HDX. The *Core HDX* cabinet enhances the player gaming experience with its dual widescreen 23-inch monitors with 1080p high definition (“HD”) capability, integrated touchscreens, and premium 3-way sound system. The eye-catching cabinet commands a presence on the casino floor with game-controlled lighting and a custom premium LCD topper, *Apex N*[™]. Select *Core HDX* games feature Everi Bet[™], the bet configuration system that gives casino operators the power to optimize the casino floor for maximum returns. The vast majority of our standard video library on our MForce[®] software platform is designed to be playable on the *Core HDX*.

Empire MPX (E43). The *Empire MPX* debuted in April 2017 with the launch of the Company’s first premium participation cabinet on its WAP, and then launched its for-sale category *Empire MPX* products in December 2017. The new cabinet features a single-screen 43-inch monitor, full 1080p HD graphics capabilities, and a fully-customizable touchscreen button panel. Its efficient design allows for tighter bank configuration. *Empire MPX* licensed video content includes *Casablanca*[™], *Penn & Teller*[®], *Buffy the Vampire Slayer*[™], *Singin' in the Rain*[™], and *Willie Nelson*[™].

Empire MPX (E5527). The *E5527* is also uniquely designed to occupy less space on the casino floor, allowing for easy game bank and pod configurations. The all-new premium lease cabinet features a portrait oriented 55-inch upper display and landscape oriented 27-inch lower display that are sure to dazzle players. The cabinet leverages proven technology from Everi’s *Empire MPX* to deliver an exciting new player experience with visuals never before seen on an Everi gaming device. With its leading-edge cabinet design and innovative technology features, that both players and casino operators will appreciate, *E5527* commands attention on the casino floor.

The Texan HDX[™]. *The Texan HDX* is an 8-foot tall cabinet with dual 42-inch HD video screens and features a two-person bench seat, integrated touch screens, and a premium three-way sound system. The cabinet is designed to showcase the Everi standard video library in an oversized format, allowing games to be prominently displayed on the casino floor.

TournEvent[®]. Our slot tournament system that allows gaming operators to switch from in-revenue gaming to out-of-revenue tournaments and to design and build a variety of flexible tournament formats, such as solo or team tournament play, session or round winner advancement, and cumulative or maximum scoring, including providing bonus opportunities that improve scores or automatically move a player to first place. The latest *TournEvent*[®] 5.0 game version includes new system enhancements that improve operator efficiencies and hardware and offers engaging tournament games that attract players. With the wireless tablet option, casino operators will be able to sign up players for tournaments remotely, allowing for a more efficient tournament registration and an overall better tournament experience for the casinos and players alike. *TournEvent*[®] also is available with multiple sign options, consisting of a 65-inch television, lighted accent dividers, and the ability to be featured on new bank configurations.

Everi FinTech

Our FinTech products and services include solutions that we provide directly to gaming establishments to offer their patrons cash access-related services and products including: access to cash at gaming facilities via ATM cash withdrawals, credit card cash access transactions, and POS debit card cash access transactions; check-related services; fully integrated kiosks and maintenance services; compliance, audit, and data software; casino credit data and reporting services; and other ancillary offerings. We conduct our FinTech segment business based on results generated from the following major revenue streams: (a) Cash Access; (b) Equipment; and (c) Information Services and Other.

Cash Access

In connection with our Cash Access services, we offer the following:

ATM Cash Withdrawals. ATM cash withdrawal transactions represent the largest category of electronic payment transactions that we process, as measured by dollar and transaction volume. In an ATM cash withdrawal transaction, a patron directly accesses funds from a device enabled with our ATM service by either using an ATM card or a debit card to withdraw funds from the patron’s demand deposit account, or using a credit card to access the patron’s line of credit. In either event, the patron must use the personal identification number (“PIN”) associated with such card. Our processor then routes the transaction request through an electronic funds transfer (“EFT”) network to the patron’s bank or issuer, as applicable.

Depending upon a number of factors, including the patron's account balance or credit limit and daily withdrawal limit (which limits are set by the bank or issuer, as applicable), the bank or issuer will either authorize or decline the transaction. If the transaction is authorized, then the ATM-enabled device dispenses the cash to the patron. For a transaction using an ATM card or a debit card, the patron's demand deposit account is debited by the amount of cash disbursed plus a service fee that we assess the patron for the use of the ATM service. For a transaction using a credit card with a PIN, the patron's credit card account is charged by the amount of the cash disbursed plus a service fee that we assess the patron for the use of the ATM service. In both cases, the service fee is currently a fixed dollar amount and not a percentage of the transaction size. We also receive a fee, which we refer to as a reverse interchange fee, from the patron's card-issuing bank for accommodating the card issuer's customer. In most circumstances, we pay a percentage of the service fee that we receive from the patron and, in some circumstances, a portion of the reverse interchange fees we receive, as a commission to our gaming establishment customers for the right to operate on their premises.

Credit Card Cash Access Transactions and POS Debit Card Cash Access Transactions. Patrons can perform credit card cash access transactions and POS debit card cash access transactions using many of our enabled devices. A patron's credit card cash access limit is usually a sub-limit of the total credit line and is set by the card-issuing bank, not Everi FinTech. These limits vary significantly and can be larger or smaller than the POS debit cash access limit. A credit card cash access transaction obligates the patron to repay the issuing bank over time on terms that are preset by the cardholder agreement. A patron's POS debit card allows the patron to make cash withdrawals at the POS in an amount equal to the lesser of the amount of funds in the account, or a daily limit that is generally five to ten times as large as the patron's daily ATM limit.

When a patron requests a credit card cash access or POS debit card cash access transaction, our processor routes the transaction request through one of the card associations, or EFT networks, to the issuing bank. Depending upon several factors, such as the available credit or bank account balance, the transaction is either authorized or declined by the issuing bank. If authorized, the patron's bank account is debited or the patron's credit card balance is increased, in both cases, by an amount equal to the funds requested plus our service fee. The service fee is a fixed dollar amount, a percentage of the transaction size, or a combination of a fixed dollar amount and percentage of the transaction size. If the transaction is authorized, the device informs the patron that the transaction has been approved. The device then further instructs the patron to proceed to the gaming establishment's cashier, or Company-operated satellite cage ("financial services center"), to complete the transaction because credit card cash access and POS debit card cash access transactions must, in most circumstances, be completed in face-to-face environments and a unique signature must be received in order to comply with rules of the card associations. We reimburse the gaming establishment for the amount of cash that it provided to the patron by paying the gaming establishment via wire transfer or other similar form of electronic payment. In addition, we pay the gaming establishment a portion of the service fee as a commission for the right to operate on its premises. We are also obligated to pay interchange fees to the issuing bank and processing costs related to the electronic payment transaction to card associations.

Check-Related Services. Patrons are able to cash checks at certain gaming establishments. When a patron presents a check to the cashier, the gaming establishment can accept or deny the transaction based on its own customer information and at its own risk, obtain third-party verification information about the check writer, the bank account number, and other information relating to the check to manage its risk, or obtain a warranty on payment of the check, which entitles the gaming establishment to reimbursement of the full amount of the check if it is dishonored.

If a gaming establishment chooses to have a check warranted, it sends a request to a check warranty service provider, inquiring whether it would be willing to accept the risk of cashing the check. If the check warranty provider accepts the risk and warrants the check, the gaming establishment negotiates the patron's check by providing cash for the face amount of the check. If the check is dishonored by the patron's bank upon presentment, the gaming establishment invokes the warranty, and the check warranty service provider purchases the check from the gaming establishment for the full check amount and then pursues collection activities on its own.

For those gaming establishments that seek to manage their own risk, we provide a subscription check verification service via a database operated by our subsidiary, Central Credit, LLC ("Central Credit"), which is used by gaming establishments to make credit issuing decisions. Central Credit maintains information on the check cashing and credit history of many gaming establishment patrons. For those gaming establishments that prefer to obtain a warranty, we provide check warranty services through a third-party check warranty service provider. We pay this third-party provider to assist with the warranty decision, check processing, billing, and collection activities. On our behalf, this third-party provider charges our gaming establishment customers a fee for the check warranty services, which is typically a percentage of the face amount of the check being warranted. In such circumstances, we receive all of the check warranty revenue. We are exposed to risk for the losses associated with any warranted items that cannot be collected from patrons issuing the items. Warranty expenses are defined as any amounts paid by the third-party provider to gaming establishments to purchase dishonored checks that will not be collectible from patrons and any expenses related to the collection on these amounts. We also pay certain fees and operating expenses to our third-party provider related to the provision of these services.

Casino Cash Plus 3-in-1 ATMs are unmanned, cash-dispensing machines that enable ATM cash withdrawals, POS debit card cash access transactions, and credit card cash access transactions directly or using our 3-in-1 Rollover functionality. Most financial institutions that issue debit cards impose daily ATM withdrawal limits, and, in some instances, aggregate and count Friday, Saturday, and Sunday as a single day in calculating such limits. If a patron has reached his or her daily ATM limit, our 3-in-1 Rollover functionality automatically enables the patron to obtain funds via a POS debit card cash access transaction or a credit card cash access transaction instead.

CashClub® is a software payments platform that provides gaming establishments with a personal computer workstation software user interface and point-of-sale terminal that streamlines credit and debit card cash access transaction processing and check warranty transactions for casino patrons. It allows for electronic signature capture and dynamic currency conversion. It also interfaces with our Everi Compliance solutions (defined below) to assist casino operations with meeting regulatory requirements under Title 31 of the Bank Secrecy Act.

Equipment

In connection with our Equipment, we offer the following:

Fully Integrated Kiosks are a complete line of products that provide multiple functions to the casino floor. This includes cash access functionality, such as our 3-in-1 Rollover, which provides casino patrons access to perform cash advance, POS debit, and ATM transactions. The kiosks also provide functionality to perform check cashing transactions, slot machine ticket redemption, bill breaking, and loyalty program access as well as integration with mobile and wallet technology. The availability of our cash access platform on these slot ticket redemption devices provides us with additional points of contact with gaming patrons at locations that are usually closer to gaming devices than traditional cash access devices that are typically located on the periphery of the gaming area within the casino floor and also provides gaming patrons with more opportunities to access their cash with less cashier involvement.

Other Integrated Kiosk Solutions provide casinos with more efficient and streamlined methods for cash handling and transaction processing. These products are designed to be integrated with our cash access products and cage compliance software ensuring compliance with anti-money laundering regulations, and provide an automated way to process common tax forms, such as the Internal Revenue Service Form W-2G or Form 1042-S. In addition, we offer equipment in the form of standalone, non-ATM terminals that perform authorizations for credit card cash access and POS debit card cash access transactions. Our kiosk solutions include the following products:

- *JackpotXchange* family of kiosks, *JXC 4.0*, and *JXC-L*, enable casino personnel to efficiently access funds to pay out jackpots for their guests. These kiosks are integrated with all major slot systems to offer jackpot processing and pay-out in a combination of cash or slot tickets. These kiosks offer gaming operators the ability to reduce workload at the cage and for slot personnel.
- *JackpotXpress* is a full-featured jackpot and tax form management platform that allows casino personnel to work through the complex jackpot process using a mobile tablet or kiosk. *JackpotXpress* allows gaming operators to reduce jackpot wait times, eliminate cumbersome paper documents, and perform “know your customer” checks. It is fully integrated with our Everi Compliance (defined below), *CageXchange*, and *JackpotXchange* products.
- *CageXchange* is a cash dispensing device that helps streamline casino cage operations. With *CageXchange*, cash is securely vaulted, creating increased security while also reducing cash shrinkage and helping to improve cashier accuracy. Additional efficiencies are achieved from accelerating the process of cage cashiers obtaining money from the vault. *CageXchange* is integrated with *CashClub®* to create an efficient transaction for casino guests.
- Our *Cash Recycling Solutions* allow casinos to fully automate the check in and check out process of money, saving time and expense. As gaming establishments vary in size and complexity, these *Cash Recycling Solutions* support a number of diverse resort operations such as retail, food and beverage, entertainment, and gaming operations.

Information Services and Other

In connection with our Information Services and Other solutions, we offer the following:

Maintenance provides for various forms of support to maintain our fully integrated kiosks. Our support operations, field service, and customer engagement teams provide quarterly and annual maintenance on these products and software systems to help maximize the efficiency of our products.

Everi Compliance is our suite of compliance software offerings for gaming operators that help gaming establishments comply with financial services and gaming regulations, which include software to assist with anti-money laundering regulations, such as filing currency transaction reports (“CTRs”), and suspicious activity reports (“SARs”). In addition, these compliance solutions assist with “know your customer” checks to ensure transactions are appropriately conducted.

Central Credit is our gaming patron credit bureau service which, on a subscription basis, allows gaming establishments to improve their credit-granting decisions by obtaining access to a database containing credit information and transaction data on millions of gaming patrons. Our gaming credit reports are comprised of information recorded from patron credit histories at hundreds of gaming establishments. We provide such information to gaming establishments that subscribe to the service. These establishments then use that data, among other things, to determine how much credit, if any, they will grant to a gaming patron. We typically charge our customers for access to gaming patron credit reports on a monthly basis and our fees are generally comprised of a fixed minimum fee plus per-transaction charges for certain requests.

Other solutions include database services that allow gaming establishments access to information from our proprietary patron transaction database for purposes of player acquisition, direct marketing, market share analysis, and a variety of other patron promotional uses. Our proprietary patron transaction database includes information that is captured from transactions we process. Patrons may “opt out” of having their names included in marketing mailing lists. We also offer an online payment processing solution for gaming operators in states that offer intra-state, Internet-based gaming, and lottery activities.

Manufacturing

We utilize contract manufacturers to produce the cabinets that make up our electronic gaming machines (“EGMs”), kiosk products, and other sub-assemblies. We have assembly facilities in Austin, Texas and Las Vegas, Nevada, where we assemble the EGMs and our kiosk products, which include the cabinets, computer assemblies, LCD screens, printers, bill validators and acceptors, and other wiring and harnesses. We believe that our sources of supply of component parts and raw materials for our products are generally adequate and we have few sole-sourced parts.

Research and Development

We conduct research and development activities primarily to develop gaming systems, game engines, casino data management systems, bingo outcome determination systems, video lottery outcome determination systems, gaming platforms, and gaming content, and to enhance our existing product lines. We believe our ability to deliver differentiated, appealing products and services to the marketplace is based on our research and development investments, and we expect to continue to make such investments in the future. Research and development costs consist primarily of salaries and benefits, consulting fees, and game lab testing fees. Once the technological feasibility of a project has been established, it is capitalized until it becomes available for general release.

Customers

As of December 31, 2018, we served approximately 1,450 casinos and other gaming properties in the United States, Europe, Canada, the Caribbean, Central America, and Asia. In certain limited circumstances, we provide our products and services to non-gaming establishments, such as gas stations and other retail businesses associated with gaming establishment customers. However, the revenue generated from these operations is not material to our operations and we do not actively market or target non-gaming establishment customers.

Sales and Marketing

In our Games business, we sell and market our products and services to gaming establishments primarily through the use of a direct sales force, which targets gaming establishments in the United States and in certain international markets. With respect to our gaming products, we participate in the Class II and Class III gaming machine markets, and the central determinant system market in North America, through participation, or revenue share, and fixed fee arrangements, and the sale of proprietary EGMs and systems.

In our FinTech business, we sell and market Cash Access (i.e., Cash Advance, ATM, and Check Services), Equipment (i.e., Kiosks Sales), Information Services and Other (i.e., Kiosk Services, Compliance Sales and Services, Central Credit Services, and Ancillary Services) through the use of a direct sales force, which targets gaming establishments in the United States and in certain international markets.

With respect to both our Games and FinTech businesses, our sales and marketing efforts are directed by a team of customer service executives, each of whom has business development responsibility for gaming establishments in specified geographic regions.

These customer service executives direct their efforts at various levels of gaming establishment personnel, including: senior executives, finance professionals, marketing staff, slot directors, and cashiers, and seek to educate them on the benefits of our products and services. In some cases, our customer service executives are supported by field service and customer engagement teams, who provide on-site customer service to most of our customers. In other cases, our sales executives directly maintain the customer relationships. These customer service executives and field service and customer engagement teams generally reside in the vicinity of the specific gaming establishments they support to ensure a prompt response to the needs of those gaming establishments. We also have joint sales efforts with a number of strategic partners, including independent sales organizations, which allow us to market our products and services to gaming establishments through channels other than our direct sales force.

Competition

With respect to our Games business, we compete across different gaming markets with a variety of gaming equipment suppliers. Competition is generally based upon the: (a) amount of revenue our products generate for our customers relative to the amount of revenue generated by our competitors' products; (b) prices and fees we and our competitors charge for products and services offered; and (c) appeal of our competitors' products to gaming patrons, which has a direct effect on the volume of play generated by a product and, accordingly, the revenues generated for our customers. To drive customer demand and improve product attractiveness, we continually work to develop new game themes, game engines, hardware platforms, and systems that appeal to gaming patrons, all while working to release these new products to the marketplace in a timely manner.

With respect to our FinTech business, we compete with other providers of cash access services to the gaming industry as well as with financial institutions and other regional and local banks that operate ATMs on the premises of gaming establishments. Some of these other providers and financial institutions have established cooperative relationships with each other to expand their service offerings. We also face increased competition from: (a) independent sales organizations, which provide basic services and aggressive pricing; (b) other manufacturers that provide similar goods and services; and (c) traditional transaction processors that have entered the gaming patron cash access services market. This increased competition amongst these various providers of cash access services has resulted in pricing pressure and margin erosion with respect to our core cash access products and services. In addition to competing with various providers of cash access services, FinTech has experienced competition from either those same providers or stand-alone providers of anti-money laundering compliance products and self-service kiosks for ticket redemption and jackpot redemption.

Intellectual Property

We believe the ability to introduce and respond to technological innovation in the gaming industry will be an increasingly important qualification for the future success of any provider of cash access and gaming-related products and services. Our continued competitiveness will depend on: (a) the pace of our new product development; (b) our patent, copyright, trademark, and trade secret protection; and (c) our relationships with customers. Our business development personnel work with gaming establishments, our technology and other strategic partners, and the suppliers of the financial services upon which our cash access services rely, to design and develop innovative products and services that appeal to gaming patrons.

We rely on a combination of patents, trademarks, copyrights, trade secrets, and contractual restrictions to protect our intellectual property. The expiration dates of these patents vary and are based on their filing and issuances dates. We intend to continue to actively file for patent protection, when such filings are commercially reasonable, within and outside the United States. We also seek trademark protection for our names and products and have registered hundreds of trademarks in the United States and various foreign countries. Under permission or license agreements with third parties, we also sell gaming products covered by independently filed copyrights, trademarks, or patents. Typically, these contracts require us to pay royalties to the licensing party. Royalty expenses are included in the cost of gaming and systems in our Financial Statements included elsewhere in this Annual Report on Form 10-K. In addition to our patents, trademarks, and copyrights, we also rely on a broader scope of intellectual property including trade secrets, in-house know-how, and innovation.

Seasonality

Our revenues and cash flows may fluctuate throughout the year driven by seasonality in player demand and activity. We generally experience higher operating results during the first half of a year and lower operating results during the second half of a year, however, such fluctuations do not have a material impact on our revenues and cash flows.

Employees

As of December 31, 2018, we had approximately 1,250 employees. We believe that our relations with our employees are good. We have never experienced a work stoppage and none of our employees are subject to a collective bargaining agreement.

Available Information

Our website address is www.everi.com. We make available free of charge on our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. In addition, our earnings conference calls are web cast live via our website. In addition to visiting our website, you may read any document we file with the SEC at www.sec.gov.

REGULATION

General

We believe that we are in substantial compliance with all material gaming and financial institution laws applicable to our business. We have a diligent internal compliance program to ensure compliance with our business activities, as well as legal requirements generally applicable to all publicly traded companies. The compliance program is directed on a day-to-day basis by our Chief Compliance Officer. Legal advice is provided by attorneys from the Company's legal department and outside experts. The compliance program is overseen by the Corporate Compliance Committee, which includes a gaming law expert as an independent member. We can give no assurance, however, that our business activities or the activities of our customers in the gaming industry will not be subject to any regulatory or legal enforcement proceedings in the future and a violation of applicable laws by us or any of our subsidiaries could have a material adverse effect on our financial condition, prospects, and results of operations. Depending on the nature of any noncompliance, our failure to comply with such laws, regulations, and ordinances may result in the suspension or revocation of any license, registration, or other approval, a partial or complete cessation of our business, seizure of our assets, as well as the imposition of civil fines and criminal penalties.

Gaming Regulation

The gaming industry is highly regulated under legal systems that frequently evolve and change based on governmental public policies. Various aspects of our business are subject to comprehensive laws, regulations, and ordinances applicable to the ownership, management, and operation of gambling establishments as well as certain financial services conducted at such establishments. The stated policies and other purposes behind such laws, regulations, and ordinances are generally to: (i) ensure the public's trust and confidence in legalized gambling through a system of mandated regulation, internal controls, accounting practices, and operating procedures; and (ii) promote economic activity for the state, county, and local governments through revenue opportunities emanating from taxes, licensing fees, and other economic benefits arising out of gambling and related activities.

A description of the material regulations to which we are subject is set forth below.

Gaming Authorities. We are regulated by various city, county, state, provincial, federal, tribal, and foreign government agencies (collectively, "Gaming Authorities") in the jurisdictions where we conduct business as either a: (i) manufacturer of gaming devices, in those jurisdictions where we manufacture gaming devices and systems; (ii) supplier of "associated equipment," in those jurisdictions where we sell and service fully integrated kiosks and other integrated kiosk solutions; and (iii) non-gaming supplier or vendor, in those jurisdictions where we provide cash access and Central Credit services only. We must maintain those licenses, registrations, or other approvals in good standing to continue our business. Gaming Authorities have broad discretion in determining whether to grant a license, registration, or other approval. Subject to complying with certain procedural requirements, Gaming Authorities may deny any application, or limit, condition, restrict, revoke or suspend any license, registration, finding of suitability, qualification, or other approval for any cause deemed reasonable to them.

Approvals, Licensing and Suitability

The process of obtaining necessary licenses, registrations, or other approvals often involves substantial disclosure of confidential or proprietary information about us and our officers, directors, key personnel and, in certain instances, beneficial owners of our debt or equity securities, and requires a determination by the regulators as to our suitability as a manufacturer, supplier, or vendor to gaming establishments. Gaming regulatory authorities have broad discretion and may require any beneficial holder of our securities, regardless of the number of shares of common stock or amount of debt securities owned, to file an application, make personal or confidential disclosures, be investigated, and be subject to a determination of suitability. Many jurisdictions require any person who acquires beneficial ownership of more than a certain percentage of voting securities of a gaming company and, in some jurisdictions, non-voting securities, typically 5%, to report the acquisition to Gaming Authorities, and Gaming Authorities may require such holders to apply for qualification or a finding of suitability, subject to limited exceptions for "institutional investors" that hold a company's voting securities for investment purposes only.

Product Approvals

Our gaming devices and certain other products and technologies must be certified or approved by Gaming Authorities in many jurisdictions where we conduct business. These Gaming Authorities test the gaming devices, systems, and related equipment directly or through an independent testing laboratory and may also require a field trial under the regulator’s technical standards before allowing us to sell the product. Although we collaborate closely with the Gaming Authorities and independent testing laboratories, we cannot control whether our products will be approved or the length of time taken to review our products for sale to third parties. Moreover, there are no guarantees that we will be successful in obtaining and maintaining all necessary licenses, permits, and approvals and to continue to hold other necessary gaming licenses, permits, and approvals to conduct our businesses either as currently being conducted by us or to expand our businesses.

Our Native American customers are regulated by the National Indian Gaming Commission (“NIGC”), which was established by the Indian Gaming Regulatory Act of 1988 (“IGRA”). The NIGC has regulatory authority over certain aspects of Native American gaming and defines the boundaries of our dealings with the Native American marketplace and the level of regulatory authority to which these games are subject. IGRA establishes three classes of gaming, each with a different regulatory framework:

Class	Type of Games	Regulatory Oversight
I	Social gaming for minimal prizes and traditional Indian gaming.	Exclusive regulation and oversight by tribal governments.
II	Bingo (both in traditional and electronic form).	Regulation by tribal governments with NIGC oversight.
III	Casino style games (including slot machines, blackjack, craps, and roulette).	Must be permitted by the state in which the tribe is located. The state and the tribe must have negotiated a compact approved by NIGC, and the tribe must have adopted a gaming ordinance approved by the NIGC.

We sell our gaming devices and systems in both Class II and Class III markets.

Class III gaming on Native American tribal lands is usually subject to the negotiation of a compact between the tribe and the proximate state attendant to where the tribe intends to operate a gaming facility. These tribal-state compacts typically include provisions entitling the state to receive significant sums of money in exchange for the tribe’s operation of Class III gaming. While tribal-state compacts are intended to document the agreement between the state and a tribe, these tribal-state compacts can be subject to disputes relative to permitted Class III gaming operations.

The Johnson Act. The Johnson Act, as amended by the federal Gambling Devices Act of 1962 (the “Johnson Act”), requires that we register annually with the Criminal Division of the United States Department of Justice and requires a wide variety of record keeping and equipment identification efforts on our part. Registration is required in order for us to sell, distribute, manufacture, transport, or receive gaming equipment, machines, or components across state lines. If we fail to comply with the requirements set forth under the Johnson Act, we could become subject to a variety of penalties, including, but not limited to, the seizure and forfeiture of equipment.

Internet and Online Gaming Regulation. Several states have passed implementing legislation and regulations to allow certain intra-state, wager-based, online casino, or lottery games, such as online poker, online lottery, lottery ticket purchases, or lottery ticket subscriptions. To date, several states have authorized some form of Internet or online gaming or lottery activities. However, the legislative and regulatory framework governing these activities may continue to evolve in the future.

Financial Services Regulation

Our FinTech business is also subject to a number of financial services regulations:

Durbin Amendment. Rules promulgated by the Board of Governors of the Federal Reserve System, required as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), including the so-called Durbin Amendment (the “Durbin Amendment”), establish, among other things, standards for assessing whether debit card interchange fees received by certain debit card issuers are reasonable and proportional to the costs incurred by issuers for electronic debit transactions. Debit card interchange fees are established by payment card networks and ultimately paid by merchants to debit card issuers for each debit transaction.

Anti-Money Laundering. The USA PATRIOT Act of 2001, other federal statutes, generally referred to as the Bank Secrecy Act, and implementing federal regulations require us to establish and maintain an anti-money laundering program. Our anti-money laundering program includes: internal policies, procedures, and controls designed to identify and report money laundering, a designated compliance officer, an ongoing employee training program, and an independent audit function to test the program. In addition, the cash access services that we provide are subject to record keeping and reporting obligations under the Bank Secrecy Act. Our gaming establishment customers are required to file a SAR with the U.S. Treasury Department's Financial Crimes Enforcement Network to report any suspicious transactions relevant to a possible violation of law or regulation. We are also required to file a SAR where we provide our cash access services directly to patrons through financial services centers that we staff and operate. To be reportable, such a transaction must meet criteria that are designed to identify the hiding or disguising of funds derived from illegal activities. Our gaming establishment customers, in situations where our cash access services are provided through gaming establishment cashier personnel, and we, in situations where we provide our cash access services through a financial services center, are required to file a CTR of each deposit, withdrawal, exchange of currency, or other payment or transfer by, through, or to us which involves a transaction in currency of more than \$10,000 in a single day. Our CashClub® product can assist in identifying transactions that give rise to reporting obligations.

Fund Transfers. Our POS debit card cash access transactions, credit card cash access transactions, and ATM services are subject to the Electronic Fund Transfer Act, which provides cardholders with rights with respect to electronic fund transfers, including the right to dispute unauthorized charges, charges that list the wrong date or amount, charges for goods and services that are not accepted or delivered as agreed, math errors, and charges for which a cardholder asks for an explanation or written proof of transaction along with a claimed error or request for clarification. We believe the necessary policies and procedures have been implemented throughout our organization in order to comply with the regulatory requirements for fund transfers.

State Money Transmission Laws. Many states where we complete credit card cash access and POS debit card cash access transactions or offer our online payment processing solution require us to have a money transmitter license.

Credit Reporting. Our Central Credit gaming patron credit bureau services and check verification and warranty services are subject to the Fair Credit Reporting Act (the "FCRA") and the Fair and Accurate Credit Transactions Act of 2003 (the "FACTA") and their implementing rules, which require consumer credit bureaus, such as Central Credit, to provide credit report information to businesses only for certain purposes and to otherwise safeguard credit report information, to disclose to consumers their credit report on request, and to permit consumers to dispute and correct inaccurate or incomplete information in their credit report. These laws and rules also govern the information that may be contained in a consumer credit report. We continue to implement policies and procedures as well as adapt our business practices in order to comply with these laws and regulations. In addition to federal regulations, our Central Credit gaming patron credit bureau services are subject to the state credit reporting regulations that impose similar requirements to the FCRA and the FACTA.

Debt Collection. We currently outsource most of our debt collection efforts to third parties. However, we do engage in debt collection to collect on chargebacks on our cash access products and unpaid balances for services performed for our check services, Central Credit services, compliance services, receivables relating to the sale and service of our fully integrated kiosks and other integrated kiosk solutions, and other amounts owing to us in connection with performing various services for our customers. All such collection practices may be subject to the Fair Debt Collection Practices Act (the "FDCPA"), which prohibits unfair, deceptive, or abusive debt collection practices, as well as consumer-debt-collection laws and regulations adopted by the various states.

Privacy Regulations. Our collection of information from patrons who use our financial products and services, such as our cash access services, are subject to the financial information privacy protection provisions of the Gramm-Leach-Bliley Act of 1999 (the "GLBA") and its implementing federal regulations. We gather, as permitted by law, non-public, personally-identifiable financial information from patrons who use our cash access services, such as names, addresses, telephone numbers, bank and credit card account numbers, and transaction information. The GLBA requires us to safeguard and protect the privacy of such non-public personal information and also requires us to make disclosures to patrons regarding our privacy and information sharing policies and give patrons the opportunity to direct us not to disclose information about them to unaffiliated third parties in certain situations. We are also subject to state privacy regulations which, in some cases, may be even stricter than federal law. We continue to implement policies and programs as well as adapt our business practices in order to comply with federal and state privacy laws and regulations. In addition, we are also subject to foreign data protection and privacy laws including, but not limited to, the European Union General Data Protection Regulation, which became effective in May 2018 and requires companies to meet new requirements regarding data privacy and security.

ATM Operations. The Electronic Fund Transfer Act requires us to disclose certain notices regarding the fees that we charge for performing an ATM transaction as well as to incorporate such notices on the ATM screens to notify patrons of such fees prior to completing an ATM transaction. Our ATM services are also subject to applicable state banking regulations in each jurisdiction in which we operate ATMs which require, among other things, that we register with the state banking regulators as an operator of

ATMs, that we provide gaming patrons with notices of the transaction fees assessed upon use of our ATMs, that our transaction fees do not exceed designated maximums, that we offer gaming patrons a means of resolving disputes with us, and that we comply with prescribed safety and security requirements. In addition, the ATMs that we operate are subject to requirements of the Americans with Disabilities Act, which in general require that ATMs be accessible to individuals with disabilities, such as visually-impaired persons.

Check Cashing. In jurisdictions in which we serve as a check casher, we are required to be licensed by the applicable state banking regulator to operate as a check casher. Some states also impose restrictions on this activity, such as limits on the amounts of service fees that may be imposed on the cashing of certain types of checks, requirements as to records that must be kept with respect to dishonored checks and requirements as to the contents of receipts that must be delivered to gaming patrons at the time a check is cashed.

Network and Card Association Regulations. In addition to the governmental regulation described above, some of our services are also subject to rules promulgated by various payment networks, EFT networks, and card associations. For example, we must comply with the Payment Card Industry (“PCI”) Data Security Standard. We have been designated as a compliant service provider under the PCI Data Security Standard. We must be certified to maintain our status as a compliant service provider on an annual basis.

EMV, designed to deter fraudulent card transactions related to identity theft, counterfeit cards, and the misuse of lost or stolen cards via enhanced card authentication, transaction authorization, and cardholder verification using chip-based smart-cards. EMV has been adopted in many regions of the world as the global standard for fraud deterrence in chip-based smart-card payments. In October 2015, the network and card associations began shifting liability for fraudulent POS and ATM transactions generated through EMV-capable cards onto merchants whose devices are not capable of processing chip-based smart-card EMV transactions. This shifts the responsibility for chargebacks due to fraudulent transactions on such cards from the card issuer onto the merchant.

As a merchant of cash access transactions processed through MasterCard, Visa, Discover, and American Express, all who have adopted the EMV standard, and as an operator of ATMs, our POS, fully integrated kiosk, and ATM devices are subject to the EMV standard. This requires us to maintain our fleet of U.S.-based POS, fully integrated kiosk, and ATM devices to support the EMV standard.

International Regulation

We are also subject to a variety of gaming and financial services regulations and other laws, including the Foreign Corrupt Practices Act, in the international markets in which we operate. We expect to become subject to additional gaming and financial services regulations and other laws in the jurisdictions into which we expand our operations. Our expansion into new markets is dependent upon our ability to comply with the regulatory regimes adopted by such jurisdictions.

In addition, refer to “Item 1A. Risk Factors — Risks Related to Regulation of Our Industry” for additional industry, state, and federal regulations impacting our business.

Item 1A. Risk Factors.

The following section describes material risks and uncertainties that we believe may adversely affect our business, financial condition, results of operations, or the market price of our stock. This section should be read in conjunction with our Financial Statements and Results of Operations included elsewhere in this Annual Report on Form 10-K.

Risks Related to Our Business

We have recorded net losses in each of the two fiscal years prior to fiscal year 2018 and we may not generate profits in the future.

We had net income of \$12.4 million and net losses of \$51.9 million and \$249.5 million for the years ended December 31, 2018, 2017, and 2016, respectively. As a result of the interest payments on the indebtedness incurred in connection with Everi Holdings’ purchase of Everi Games Holding in December 2014 (the “Merger”), amortization of intangible assets associated with the Merger and other acquisitions, other related acquisition and financing costs, asset impairment charges, depreciation, and other amortization, we may not be able to generate profits in the future. Our ability to continue to generate net profits in the future will depend, in part, on our ability to:

- establish strategic business relationships with new and existing customers;

- sell our products and services into new markets and to new customers in existing markets and retain our existing customers;
- develop new games or license third-party content in our Games business and develop new products and services in our FinTech business;
- effectively manage a larger and more diversified workforce and business;
- react to changes, including technological and regulatory changes, in the markets we target or operate in;
- respond to competitive developments and challenges;
- continue to comply with the EMV global standard for cards equipped with security chip technology; and
- attract and retain experienced and talented personnel.

We may not be able to do any of these successfully, and our failure to do so could have a material adverse effect on our business, financial condition, operations, or cash flows, which could, among other things, affect our ability to make payments under our New Credit Facilities (defined herein) or the 2017 Unsecured Notes (as defined herein).

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in our industry or the economy, expose us to interest rate risk to the extent of our variable rate debt, and prevent us from meeting our obligations with respect to our indebtedness.

As of December 31, 2018, our total indebtedness was approximately \$1.2 billion, which included the New Credit Facilities and the 2017 Unsecured Notes, each of which contain restrictive covenants. Our high degree of leverage could have significant adverse effects on our business, including:

- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore, reducing our ability to use our cash flow to fund our operations, capital expenditures, and future business opportunities;
- making it more difficult for us to satisfy our obligations with respect to our indebtedness and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the New Credit Facilities and the indentures governing the 2017 Unsecured Notes;
- increasing our vulnerability to adverse economic, industry, or competitive developments;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions, and general corporate or other purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged or may have more resources than us and who therefore may be able to take advantage of opportunities that our leverage prevents us from exploiting, including pursuit and execution of potential future acquisitions.

We may not be able to generate sufficient cash to service all of our indebtedness, including the New Credit Facilities and the 2017 Unsecured Notes, and fund our working capital and capital expenditures, and we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on our indebtedness, including the New Credit Facilities and the 2017 Unsecured Notes, will depend upon our future operating performance and on our ability to generate cash flow in the future, which is subject to general economic, financial, business, competitive, legislative, regulatory, and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations, or that future borrowings, including those under the New Credit Facilities, will be available to us in an amount sufficient to pay our indebtedness or to fund other liquidity needs.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investment and capital expenditures or to dispose of material assets or operations, seek additional equity capital, or restructure or refinance our indebtedness. We may not be able to affect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations. The New Credit Facilities and the indenture governing the 2017 Unsecured Notes restrict our ability to dispose of assets and use the proceeds from any such disposition.

If we cannot make scheduled payments on our debt, we will be in default. As a result, the holders of the 2017 Unsecured Notes could declare all outstanding principal and interest to be due and payable; the lenders under the New Credit Facilities could declare all outstanding amounts under such facilities due and payable and terminate their commitments to loan money; and, in each case, could foreclose against the assets securing the borrowings under the New Credit Facilities. Such actions could force us into bankruptcy or liquidation.

If our indebtedness is accelerated, we may need to refinance all or a portion of our indebtedness before maturity. We may not be able to refinance any of our indebtedness on commercially reasonable terms or at all. There can be no assurance that we will be able to obtain sufficient funds to enable us to repay or refinance our debt obligations on commercially reasonable terms, or at all.

The agreements and instruments governing our debt impose restrictions that may limit our operating and financial flexibility.

The New Credit Facilities and the indenture governing the 2017 Unsecured Notes contain a number of significant restrictions and covenants that limit our ability to:

- incur additional indebtedness;
- sell assets or consolidate or merge with or into other companies;
- pay dividends or repurchase or redeem capital stock;
- make certain investments;
- issue capital stock of our subsidiaries;
- incur liens;
- prepay, redeem, or repurchase subordinated debt; and
- enter into certain types of transactions with our affiliates.

These covenants could have the effect of limiting our flexibility in planning for or reacting to changes in our business and the markets in which we compete. In addition, the New Credit Facilities require us to comply with a financial maintenance covenant under certain circumstances. Operating results below current levels or other adverse factors, including a significant increase in interest rates, could result in our being unable to comply with the financial covenants contained in the New Credit Facilities, if applicable. If we violate this covenant and are unable to obtain a waiver from our lenders, our debt under the New Credit Facilities would be in default and could be accelerated by our lenders. Based on cross-default provisions in the agreements and instruments governing our indebtedness, a default under one agreement or instrument could result in a default under, and the acceleration of, our other indebtedness. In addition, the lenders under the New Credit Facilities could proceed against the collateral securing that indebtedness.

If our indebtedness is accelerated, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even if we are able to obtain new financing, it may not be on commercially reasonable terms, on terms that are acceptable to us, or at all. If our debt is in default for any reason, our business, financial condition, and results of operations could be materially and adversely affected. In addition, complying with these covenants may make it more difficult for us to successfully execute our business strategy and compete against companies that are not subject to such restrictions.

Our net operating losses and other tax credit carry-forwards are subject to limitations that could potentially reduce these tax assets.

As of December 31, 2018, we had tax effected federal and state net operating loss (“NOL”) carry-forwards of approximately \$83.0 million and \$14.1 million, respectively, federal research and development credit carry-forwards of approximately \$8.5 million, and foreign tax credit carry-forwards of approximately \$0.5 million. The federal net operating losses can be carried forward and applied to offset taxable income for 20 years and will expire starting in 2022 (for losses incurred before 2018). An estimated federal loss incurred in 2018 of approximately \$8.2 million, tax effected, can be carried forward indefinitely to offset taxable income. The state net operating loss carry-forwards will expire between 2019 and 2039. The federal research and development credits are limited to a 20 year carry-forward period and will begin to expire in varying amounts in 2029, if not utilized. The foreign tax credits, which have a full valuation allowance, can be carried forward 10 years and will expire in 2020, if not utilized.

Based on the weight of available evidence, including both positive and negative indicators, if it is more likely than not that a portion, or all, of the deferred tax assets will not be realized, we must consider recording a valuation allowance. Greater weight is given to evidence that is objectively verifiable, most notably historical results. We are in a cumulative loss position and we have decreased our valuation allowance for deferred tax assets related to these NOL and other tax credit carry-forwards, excluding the

2018 federal NOL, by \$10.1 million during 2018. Our ability to utilize the remaining NOL and other tax credit carry-forwards to reduce taxable income in future years may be further limited, including the possibility that projected future taxable income is insufficient to realize the benefit of these NOL carry-forwards prior to their expiration. To the extent our results of operations do not improve, we may not have the ability to overcome the more likely than not accounting standard that would allow us to reverse the valuation allowance and may be subject to record an additional valuation allowance in the future.

Our ability to use these tax assets could be adversely affected by the limitations of Sections 382, 383, and 384 of the Internal Revenue Code. In addition, a portion of our NOL's include amortization of goodwill for tax purposes associated with a restructuring that occurred in 2004, which could be subject to audit by the IRS and thus may have an adverse effect on our NOL carry-forwards.

The Tax Cuts and Jobs Act of 2017 ("2017 Tax Act") could adversely affect our business and financial condition.

Due to the 2017 Tax Act, net operating losses arising in taxable years beginning after December 31, 2017 are limited in use to offset 80% of taxable income without the ability to carryback such net operating losses, however, with an indefinite carry-forward of such net operating losses (instead of the former 2-year carryback and 20-year carry-forward for net operating losses arising in taxable years beginning before December 31, 2017). The amount of the net U.S. federal interest expense deduction is generally limited to (a) 30% of adjusted taxable income, calculated without regard to depreciation, amortization, depletion or interest, effective for tax years beginning after December 31, 2017 and before January 1, 2022 and (b) 30% of adjusted taxable income, calculated without regard to interest (reduced by depreciation, amortization and depletion), effective for tax years beginning after December 31, 2021. Disallowed amounts may be carried forward indefinitely, subject to ownership change limitations. U.S. corporations are also subject to current tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries and a base erosion anti-avoidance tax. The 2017 Tax Act changes are complex and subject to additional guidance to be issued by the U.S. Treasury and the Internal Revenue Service. In addition, the individual states' reactions to the federal tax changes are evolving. As a result, the overall long-term impact of the 2017 Tax Act is uncertain. It is possible that the application of any new rules may have a material and adverse impact on our operating results, cash flows, and financial condition.

We may experience network or system failures, or service interruptions, including cybersecurity attacks, or other technology risks. Our inability to protect our systems and data against such risks could harm our business and reputation.

Our ability to provide uninterrupted and high levels of services depends upon the performance of our internal network, systems and related infrastructure, and those of our third-party vendors. Any significant interruptions in, or degradation of, the quality of the services, including infrastructure storage and support, that these third parties provide to us could severely harm our business and reputation and lead to the loss of customers and revenue. Our internal network, systems, and related infrastructure, in addition to the networks, systems, and related infrastructure of our third-party technology vendors, may be vulnerable to computer viruses and other malware that infiltrate such systems and networks, as well as physical or electronic security breaches, natural disasters, and similar disruptions. They have been and may continue to be the target of attempts to identify and exploit network and system vulnerabilities, penetrate or bypass security measures in order to interrupt or degrade the quality of the services we receive, or provide or otherwise gain unauthorized access to our networks and systems or those of our third-party vendors. These vulnerabilities or other attempts at access may result from, or be caused by, human error or technology failures, however, they may also be the product of malicious actions by third parties intending to harm our business. The methods that may be used by these third parties to cause service interruptions or failures or to obtain unauthorized access to information change frequently, are difficult to detect, evolve rapidly, and are increasingly sophisticated and hard to defend against. Although we have not incurred material losses or liabilities as a result of security breaches or attempted security breaches, we cannot be certain that our defensive measures, and those employed by our third-party vendors, will be sufficient to defend against all such current and future methods.

Our careful vetting of third parties to provide technology services and the contractual requirements related to the security that we impose on our third-party vendors who have access to this data may not be sufficient to protect us from network or system failures or service interruptions.

Any security breach, whether experienced by us or a third-party vendor, may be material and lead to harm to our financial condition, business reputation, and prospects of future business due to, among other factors: loss of customer confidence arising from interruptions or outages of our services, delays, failure to meet contractual obligations, and loss of data or public release of confidential data; increase regulatory scrutiny on us; compromise our trade secret and intellectual property; expose us to costly uninsured liabilities such as material fines, penalties, liquidated damages, and overall margin compression due to renegotiation of contracts on less favorable terms or loss of business; and liability for claims relating to misuse of personal information in violation of contractual obligations or data privacy laws. The occurrence of any such failure may also subject us to costly lawsuits, claims for contractual indemnities, and negatively impact the status of our gaming regulatory licenses up to and including revocation, as well as divert valuable management, engineering, information technology, and marketing resources toward addressing these issues, delaying our ability to achieve our strategic initiatives. In the event our EGMs or cash access products, systems, or networks are compromised, gaming establishments may require us to remediate any abnormality, downtime, loss of use, or suspicious

activity or require us to indemnify casino operators for lost business and, potentially, their patrons. In addition, we gather, as permitted by law, non-public, personally-identifiable financial information from patrons who use our cash access services, such as names, addresses, telephone numbers, bank and credit card account numbers, and transaction information, the compromise of such data, which may subject us to fines and other related costs of remediation.

The insurance we maintain against cybersecurity and related risks may not cover all losses that we could suffer.

The gaming industry is intensely competitive, and if we are unable to compete effectively, our business could be negatively impacted.

The market for gaming devices, cash access products, and related services is highly competitive, and we expect competition to increase and intensify in the future. In both our Games and FinTech businesses, some of our competitors and potential competitors have significant advantages over us, including greater name recognition; longer operating histories; pre-existing relationships with current or potential customers with respect to other financial services; greater financial, research, design, development, marketing, technological, and other resources; and more ready access to capital resources, which allow them to respond more quickly to new or changing opportunities, be in a better position to compete and, in respect of our cash access business, to pay higher commissions or other incentives to gaming establishments in order to gain new customers. In our FinTech business, we compete with other established providers of cash access products and services, including third-party transaction processors, financial institutions, and other regional and local banks that operate ATMs on the premises of gaming establishments. To the extent that we lose customers to these competitors, or competitive pressures force us to offer incentives or less favorable pricing terms to us to establish or maintain relationships with gaming establishments, our business, financial condition, operations, or cash flows could be materially and adversely affected.

Consolidation among our customers or competitors could have a material adverse effect on our revenues and profitability.

We often execute contracts with customers pursuant to which we provide products and services at multiple gaming establishments. Accordingly, the expiration or termination of a single key contract can mean the loss of multiple gaming facilities at which many of our products and services are used. Consolidation among operators of gaming establishments may also result in the loss of customers, if one of our customers is acquired by a business that utilizes one of our competitors, or significant margin compression, if rates vary between acquiring and acquired customers. Consolidation among our competitors in either the Games or FinTech sectors will only increase advantages these competitors may have over us as we compete for these customers, including even greater financial, research, design, development, marketing, technological, and other resources, the ability to offer customers more favorable rates and prices due to lower operating costs resulting from efficiencies of scale and varying margins of a larger product portfolio, among other factors.

Our business depends on our ability to introduce new, commercially viable games, products, and services in a timely manner.

Our success is dependent on our ability to develop and sell new games, products, and services that are attractive not only to our customers, but also to their customers, the gaming patrons. If our games, products, and services do not appeal to gaming operators and patrons, or do not meet or sustain revenue and profitability of contractual obligations and expectations, we may lose business to our competitors. Additionally, we may be unable to enhance existing games, products, and services in a timely manner in response to changing regulatory, legal, or market conditions, customer requirements, or new games, products, and services may not achieve market acceptance in new or existing markets. Delay in regulatory approvals of new gaming devices and equipment may adversely impact new product deployment. If we are unable to keep pace with rapid innovations in new technologies or product design and deployment or if we are unable to quickly adapt our development, manufacturing, or sales processes to compete, our business, financial condition, operations, or cash flows could suffer a material adverse effect.

Our business is dependent upon consumer demand for gaming and overall economic trends specific to the gaming industry. Economic downturns or a decline in the popularity of gaming could reduce the number of patrons that use our products and services or the amounts of cash that they access using our services.

We provide our gaming-related and cash access products and services almost exclusively to gaming establishments. As a result, our business depends on consumer demand for gaming. Gaming is a discretionary leisure activity, participation in which has in the past and may in the future decline during periods of (i) economic growth, due to changes in consumers' spending habits; (ii) economic downturns, due to decreases in our customers' disposable income or general tourism activities; and (iii) declining consumer confidence, due to general economic conditions, domestic- and geo-political concerns, or other factors. Gaming competes with other leisure activities as a form of consumer entertainment and may lose popularity as new leisure activities arise or as other leisure activities become more popular. In addition, gaming in traditional gaming establishments (to which we sell our products and services) competes with Internet-based gaming. The popularity and acceptance of gaming is also influenced by the prevailing social mores and changes in social mores, including changes driven by social responsibility organizations that are dedicated to addressing problem gaming, which could result in reduced acceptance of gaming as a leisure activity or litigation or lobbying

efforts focused on limiting gaming activities. To the extent that the popularity or availability of gaming in traditional gaming establishments declines as a result of any of these factors, the demand for our cash access and gaming-related products and services, or the willingness of our customers to spend new capital on acquiring gaming equipment or utilize revenue share agreements, may decline and our business may be harmed.

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

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

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

We are subject to the risk that the domestic or international markets we attempt to enter or expand into may not develop as quickly as anticipated, or at all. The development of new gaming markets is subject to political, social, regulatory, and economic forces beyond our control. The expansion of gaming activities in new markets can be very controversial and may depend heavily on the support and sponsorship of local government, and may be based upon interpretations of newly enacted laws, the interpretation of which may be subject to regulatory or judicial review. Changes in government leadership, failure to obtain requisite voter support in referendums, failure of legislators to enact enabling legislation, and limitations on the volume of gaming activity that is permitted in particular markets may inhibit the development of new markets. Further, our estimates of the potential future opportunities in new markets are based on a variety of assumptions that may prove to be inaccurate. To the extent that we overestimate the potential of a new market, incorrectly gauge the timing of the development of a new market, or fail to anticipate the differences between a new market and our existing markets, we may fail in our strategy of growing our business by expanding into new markets. Moreover, if we are unable to meet the needs of our existing customers as they enter markets that we do not currently serve, our relationships with these customers could be harmed.

We may not realize satisfactory returns on money loaned or otherwise funded to new and existing customers to develop or expand gaming facilities.

In our gaming business, we enter into placement fee agreements typically to secure a long-term revenue share percentage and a fixed number of player terminal placements in the gaming facility. These placement fee arrangements may provide for the removal of our player terminal placements in the event of poor game performance with no further obligation of the gaming customer. Additionally, we have historically entered into development fee arrangements and may continue to do so in the future. Under the development fee arrangements, we provide financing for construction, expansion, or remodeling of gaming facilities in exchange for a long-term revenue share percentage and a fixed number of player terminal placements in the gaming facility until the development fee is repaid to us. The success of these ventures is dependent upon the timely completion of the gaming facility, the placement and performance of our player terminals, and a favorable regulatory environment. Our development and placement efforts and financing activities may result in operating difficulties, financial and regulatory risks, or required expenditures that could materially and adversely affect our liquidity. In connection with one or more of these transactions, and to

obtain the necessary development and placement fee funds, we may need to extend secured and unsecured credit to potential or existing customers that may not be repaid, incur debt on terms unfavorable to us, incur difficulties in perfecting security interests in collateral on Indian lands, or that we are unable to repay, or incur other contingent liabilities. The failure to maintain controls and processes related to our collection efforts or the deterioration of regulatory or financial condition of our customers could negatively impact our business.

If we are unable to develop and protect our intellectual property adequately or obtain intellectual property rights and agreements, we may lose valuable competitive advantages, be forced to incur costly litigation to protect our rights, or be restricted in our ability to provide various products in our markets.

Our success depends, in part, on developing and protecting our intellectual property. We rely on a combination of patents, trademarks, copyrights, trade secrets, and contractual restrictions to protect our intellectual property. We also rely on other confidentiality and contractual agreements and arrangements with our employees, affiliates, business partners, and customers to establish and protect our intellectual property and similar proprietary rights. We cannot assure you that we will be successful in protecting these rights and, despite our efforts, our trade secrets and proprietary know-how could become known to, or independently developed by, competitors. Any litigation relating to the defense of our intellectual property, whether successful or unsuccessful, could result in substantial costs to us and potentially cause a diversion of our resources.

In addition, we may face claims of infringement that could interfere with our ability to use technology or other intellectual property rights that are material to our business operations. In the event a claim of infringement against us is successful, we may be required to pay royalties to use technology or other intellectual property rights that we had been using, or we may be required to enter into a license agreement and pay license fees, or we may be required to stop using the technology or other intellectual property rights that we had been using. We may be unable to obtain necessary licenses from third parties at a reasonable cost or within a reasonable amount of time. Any litigation of this type, whether successful or unsuccessful, could result in substantial costs to us and potentially cause a diversion of our resources.

We rely on technology provided by third-party vendors, the loss of which could materially and adversely affect our business, increase our costs, and delay deployment or suspend development of our financial services products, gaming systems, and player terminals.

We have entered into license agreements with third parties for the exclusive use of their technology and intellectual property rights in the gaming industry, such as our license to use portions of the software infrastructure upon which our cash access systems operate, and we also rely on third-party manufacturers to manufacture our gaming devices, fully integrated kiosks, and other integrated kiosk solutions. We rely on these other parties to maintain and protect this technology and the related intellectual property rights. If our licensors fail to protect their intellectual property rights in material that we license and we are unable to protect such intellectual property rights, the value of our licenses may diminish significantly and our business could be significantly harmed. In addition, if these agreements expire and we are unable to renew them, or if the manufacturers of this software or hardware, or functional equivalents of this software or hardware, were either no longer available to us or no longer offered to us on commercially reasonable terms, we may lose a valuable competitive advantage and our business could be harmed.

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

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

Our inability to identify business opportunities and future acquisitions, or successfully execute any of our identified business opportunities or future acquisitions could limit our future growth.

From time to time, we pursue strategic acquisitions in support of our strategic goals. In connection with any such acquisitions, we could face significant challenges in timely securing required approvals of Gaming Authorities, or managing and integrating our expanded or combined operations, including acquired assets, operations, and personnel. There can be no assurance that acquisition opportunities will be available on acceptable terms or at all or that we will be able to obtain necessary financing or regulatory approvals to complete potential acquisitions.

We may not achieve the intended benefits of our acquisitions, if any, nor may we be able to integrate those businesses successfully, and any such acquisitions may disrupt our current plans and operations.

Our ability to succeed in implementing our strategy will depend to some degree upon the ability of our management to successfully integrate commercially viable acquisitions. Acquisition transactions may disrupt our ongoing business and distract management from other responsibilities. The expected cost synergies associated with such acquisitions may not be fully realized in the anticipated amounts or within the contemplated timeframes or cost expectations, which could result in increased costs and have an adverse effect on our prospects, results of operations, cash flows, and financial condition. Our businesses may be negatively impacted if we are unable to effectively manage our expanded operations. The integration of these acquisitions will require significant time and focus from management and may divert attention from the day-to-day operations of the combined business or delay the achievement of our strategic objectives. We expect to incur incremental costs and capital expenditures related to our contemplated integration activities.

The risks we commonly encounter in acquisitions include:

- if, in addition to our current indebtedness, we incur significant debt to finance a future acquisition and our combined business does not perform as expected, we may have difficulty complying with debt covenants;
- we may be unable to make a future acquisition which is in our best interest due to our current level of indebtedness;
- if we use our stock to make a future acquisition, it will dilute existing stockholders;
- we may have difficulty assimilating the operations and personnel of any acquired company;
- the challenge and additional investment involved with integrating new products and technologies into our sales and marketing process;
- we may have difficulty effectively integrating any acquired technologies or products with our current products and technologies, particularly where such products reside on different technology platforms or overlap with our products;
- our ongoing business may be disrupted by transition and integration issues;
- the costs and complexity of integrating the internal information technology infrastructure of each acquired business with ours may be greater than expected and may require additional capital investments;
- we may not be able to retain key technical and managerial personnel from an acquired business;
- we may be unable to achieve the financial and strategic goals for any acquired and combined businesses;
- we may have difficulty in maintaining controls, procedures, and policies during the transition and integration period following a future acquisition;
- our relationships with partner companies or third-party providers of technology or products could be adversely affected;
- our relationships with employees and customers could be impaired;
- our due diligence process may fail to identify significant issues with product quality, product architecture, legal, or tax contingencies, customer obligations, and product development, among other things;
- as successor we may be subject to certain liabilities of our acquisition targets;
- we may face new intellectual property challenges; and
- we may be required to sustain significant exit or impairment charges if products acquired in business combinations are unsuccessful.

Our failure to effectively integrate any future acquisition would adversely affect the benefit of such transaction, including potential synergies or sales growth opportunities, in the time frame anticipated.

We operate our business in regions subject to natural disasters. Any interruption to our business resulting from a natural disaster will adversely affect our revenues and results of operations.

In the event of a natural disaster, the operations of gaming establishments could be negatively impacted or consumer demand for gaming could decline, or both, and as a result, our business could be interrupted, which could materially and adversely affect our

revenues and results of operations. Adverse weather conditions, particularly flooding, hurricanes, tornadoes, heavy snowfall, and other extreme weather conditions often deter our customer's end users from traveling or make it difficult for them to frequent the sites where our games and FinTech equipment are installed. If any of those sites experienced prolonged adverse weather conditions, or if the sites in the State of Oklahoma, where a significant number of our games and FinTech equipment are installed, simultaneously experienced adverse weather conditions, our results of business, financial condition, and operations could be materially and adversely affected. During 2018, the impact of weather-related natural disasters resulted in business disruption at certain of our customers' facilities.

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

We derive a significant percentage of our revenue from the provision of cash access and gaming-related products and services to gaming facilities operated on Native American lands.

Native American tribes that are federally recognized are considered "domestic dependent nations" with certain sovereign rights and, in the absence of a specific grant of authority by Congress to a state or a specific compact or agreement between a tribal entity and a state that would allow the state to regulate activities taking place on Native American lands, such tribes can enact their own laws and regulate gaming operations and contracts. In this capacity, Native American tribes generally enjoy a degree of sovereign immunity, which, among other things, recognizes a tribe's inherent authority of self-determination and self-governance, immunizes the tribe from certain lawsuits outside of tribal jurisdiction, and generally authorizes a tribe's powers of taxation and spending over its federally-recognized nation. Accordingly, before we can seek to enforce contract rights with a Native American tribe, or an agency or instrumentality of a Native American tribe, we must obtain from the Native American tribe a general or limited waiver of its sovereign immunity with respect to the matter in dispute, which we are not always able to do. Without a general or limited waiver of sovereign immunity, or if such waiver is held to be ineffective, we could be precluded from judicially enforcing any rights or remedies against a Native American tribe, including the right to enter Native American lands to retrieve our property in the event of a breach of contract by the tribal party to that contract. Governing law and venue provisions in our contracts with Native American tribal customers vary widely and may not be enforceable.

Further, certain Native American tribes require us to contract or subcontract to provide all or some portion of our services with entities that are owned, controlled, or managed by tribal members or related parties. Our ability to provide our services is dependent upon our relationship with these third parties and their ability to provide services in accordance with the terms of our contractual arrangement with these third parties and, in some instances, the third parties' relationship or contractual arrangement with the applicable tribal gaming casino or tribe.

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

Most of our leased gaming device contracts with our customers are short-term, and if we are unable to maintain our current customers on terms that are favorable to us, our business, financial condition, operations, or cash flows may suffer a material adverse effect.

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

Tribal gaming customers who have historically operated large quantities of Class II gaming units may negotiate into arrangements with state governments or renegotiate existing gaming compacts that could impact the amount of Class II gaming devices currently supplied by the Company. If we are unable to maintain our existing placement of units, then our business, financial condition, operations, or cash flows may suffer an adverse effect.

As of December 31, 2018, we operated 9,370 Class II gaming units under lease or daily fixed fee arrangements to our customers. Customers who enter into compacts with state governments may desire to change from Class II gaming units to Class III gaming units, as Class III units generally perform better than Class II units. This may result in the loss of placements under lease or daily fixed fee arrangements as customers purchase or lease Class III units from other equipment suppliers to replace our existing Class II units. If we are unable to replace these lost units with our proprietary Class III units, then our business, financial condition, operations, or cash flows may suffer an adverse effect.

If we are unable to renew our contract with the New York State Gaming Commission, our revenues, financial condition, operations, or cash flows may suffer an adverse effect.

Our contract to provide an accounting and central determinant system for the VLTs in the State of New York has provided Games segment revenues of approximately \$18.5 million for the year ended December 31, 2018 and \$18.1 million for the years ended December 31, 2017 and 2016. In January 2018, an amendment to the agreement between Everi Games and the New York State Gaming Commission was approved and became effective. Under this amendment, Everi Games will continue to provide and maintain the central determinant system for the New York Lottery through December of 2019. Upon its expiration, if we are unsuccessful in renewing the contract, our business, financial condition, operations, or cash flows may suffer an adverse effect.

An unexpectedly high level of chargebacks, as the result of fraud or otherwise, including in connection with new technology standards being implemented in the United States regarding chip-based cards, could materially and adversely affect our cash access business.

In 1994, Europay, MasterCard, and Visa jointly developed EMV, designed to deter fraudulent card transactions related to identity theft, counterfeit cards, and the misuse of lost or stolen cards via enhanced card authentication, transaction authorization, and cardholder verification using chip-based smart-cards. EMV has been adopted in many regions of the world as the global standard for fraud deterrence in chip based smart-card payments. To encourage adoption in the U.S., effective October 1, 2015, the U.S. payment card industry implemented new rules which shifted the liability for fraudulent transactions onto merchants if they elect to process transactions using the magnetic stripe when presented with a EMV chip-based smart-card. This shifted the responsibility for chargebacks due to fraudulent transactions on such cards from the card issuer onto the merchant. If we are unable to maintain compliant status with the EMV regulations, our cash access business may be adversely affected.

When patrons use our cash access services, we either dispense cash or produce a negotiable instrument that can be exchanged for cash. If a completed cash access transaction is subsequently disputed, and if we are unsuccessful in establishing the validity of the transaction, we may not be able to collect payment for such transaction and such transaction becomes a chargeback. In the event that we incur chargebacks in excess of specified levels, we could lose our sponsorship into the card associations or be censured by the card associations by way of fines or otherwise. Our failure to adequately manage our chargebacks could have a material adverse effect on our business, financial condition, operations, or cash flows.

Changes in consumer willingness to pay a convenience fee to access their funds could reduce the demand for our cash access products and services.

Our cash access business depends upon the willingness of patrons to pay a convenience fee to access their own funds on the premises of a gaming establishment. In most retail environments, consumers typically do not pay an additional fee for using non-cash payment methods such as credit cards, POS debit cards, or checks. Gaming patrons could bring more cash with them to gaming establishments or access cash outside of gaming establishments without paying a fee for the convenience of not having to leave the gaming establishment. To the extent that gaming patrons become unwilling to pay these convenience fees or lower cost cash access alternatives become available, the demand for cash access services within gaming establishments will decline and our business could suffer.

Our 3-in-1 Rollover patent expired in early 2018 and our business, financial condition, operations, or cash flows may suffer an adverse effect from our competitors' use of this technology.

We no longer have the ability to extend our existing 3-in-1 Rollover patent, which allows a patron that has reached his or her daily ATM limit to obtain funds via a POS debit card cash access transaction or a credit card cash access transaction instead. As a result of the patent expiration, our competitors will have the ability to emulate this technology; and our business, financial condition, operations, or cash flows may suffer an adverse effect.

Risks Related to Regulation of Our Industry

Unauthorized disclosure of cardholder and patron data or similar violations of applicable data privacy laws, whether through a security breach of our computer systems, our third-party processor's computer systems or otherwise, or through our unauthorized use or transmission of such data could subject us to costly fines, penalties, and legal claims.

We collect and store personally identifiable information about cardholders and patrons that perform certain cash access and Central Credit transactions, including names, addresses, social security numbers, driver's license numbers, and account numbers, and we maintain a database of cardholder and patron data, including account numbers, in order to process our cash access and Central Credit transactions. We also rely on our third-party processor and certain other technology partners to process and store cardholder and patron data relating to our cash access and Central Credit transactions. As a result, we, as well as our third-party processor, certain of our other technology providers, and some of our gaming establishment customers, are required to comply with various foreign, federal, and state privacy statutes and regulations, and the PCI Data Security Standard. Compliance with these regulations and requirements, which are subject to change at any time, is often difficult and costly, and our failure, or the failure of these other third parties, to comply may result in significant fines or civil penalties, regulatory enforcement action, liability to our sponsor bank, and termination of our agreements with our gaming establishment customers, each of which could have a material adverse effect on our business, financial condition, operations, or cash flows. If our computer systems or those of our third-party processor or other technology providers suffer a security breach, we may be subject to liability, including claims for unauthorized transactions with misappropriated bank card information, impersonation, or similar fraud claims, as well as for any failure to comply with laws governing required notifications of such a breach, and these claims could result in protracted and costly litigation, penalties, or sanctions from the card associations and EFT payment networks, and damage to our reputation, which could reduce and limit our ability to provide cash access and related services to our gaming establishment customers.

The personally identifiable information we collect also includes our patrons' transaction behavioral data and credit history data, which we may use to provide marketing and data intelligence services to gaming establishments. This information is increasingly subject to federal, state, and card association laws and regulations, as well as laws and regulations in numerous jurisdictions around the world. Governmental regulations are typically intended to protect the privacy and security of such data and information as well as to regulate the collection, storage, transmission, transfer, use, and distribution of such data and information. We could be materially and adversely affected if domestic or international laws or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their laws or regulations in ways that negatively affect our business or even prohibit us from offering certain marketing and data intelligence or other services. Similarly, if we are required to allocate significant resources to modify our internal operating systems and procedures to enable enhanced protection of patron data that we transmit, store and use, our business results could be adversely affected. In addition, we may face requirements that pose compliance challenges in new international markets that we seek to enter as various foreign jurisdictions have different laws and regulations concerning the storage, transmission and use of gaming patron data. Such variation could subject us to costs, liabilities, or negative publicity that could impair our ability to expand our operations into some countries; therefore, it could limit our future growth.

We are subject to extensive governmental gaming regulation, which may harm our business.

Our ability to conduct both our gaming and cash access businesses, expand operations, develop and distribute new games, products and systems, and expand into new gaming markets is also subject to significant federal, state, local, Native American and foreign regulations which vary from jurisdiction to jurisdiction. In the United States and many other countries, gaming must be expressly authorized by law. Once authorized, such activities are subject to extensive and evolving governmental regulation. The gaming laws, regulations and ordinances generally concern the antecedents, acumen, financial stability and character of our owners, officers and directors, as well as those persons financially interested or involved in our companies; dictate the technical standards and regulations of our electronic player terminals, gaming systems and certain other products; set forth the process and manner by which the Gaming Authorities issue such licenses, findings of suitability and product approvals. In addition, the suspension, revocation, nonrenewal or limitation of any of our licenses or product approvals, or the inability to obtain or maintain requisite license or product approvals could have a material adverse effect on our business operations, financial condition, and results of operations and our ability to maintain key employees. The Gaming Authorities may deny, limit, condition, suspend or revoke a gaming license or related approval for violations of applicable gaming laws and regulations and may impose substantial fines and take other actions, any one of which could have a significant adverse effect on our business, financial condition and results of operations.

Further, changes in existing gaming laws or regulations or new interpretations of existing gaming laws may hinder or prevent us from continuing to operate in those jurisdictions where we currently do business, which could harm our operating results. In particular, the enactment of unfavorable legislation or government efforts affecting or directed at manufacturers or gaming operators, such as referendums to increase gaming taxes or requirements to use local distributors, or uncertainty as to the means and manner

in which existing gaming laws may be interpreted and applied, either singly or together, could have a negative impact on our operations.

In May 2018, the United States Supreme Court struck down the Professional and Amateur Sports Protection Act (“PASPA”) as unconstitutional, which led many states to quickly propose and, in some instances, pass legislation authorizing sports betting. Consequently, gaming regulators, many of our operator customers, and many of our competitors dedicated resources to service this new market, as did we. However, in January 2019, the Office of Legal Counsel of the Department of Justice (“OLC”) published an opinion reversing its prior 2011 opinion interpreting the Federal Wire Act. The 2019 opinion now indicates that the Wire Act is applicable to any wire communication across state lines and specifically indicating that the Unlawful Internet Gambling Enforcement Act (“UIGEA”) does not modify the Wire Act, violations of which may be subject to criminal prosecution. The specific comment regarding UIGEA implicates UIGEA’s carve out for “unlawful Internet gambling” and “intermediate routing” (i.e., the ancillary crossing of state lines of transmissions between intra-state communications points). In reliance on the 2011 Wire Act opinion, several states legalized online gaming, and the proposed legislation in many jurisdictions in response to the May 2018 PASPA decision included online sports betting. The impact of the 2019 Wire Act opinion is currently unclear, and may implicate lottery, land-based, and online gaming as well as banks and payment processors that services these market segments. The Deputy Attorney General of the United States delayed implementation of the 2019 opinion through June 14, 2019, and several states’ attorney general have, or are contemplating, action in response to the 2019 opinion, including litigation. Interpretations and resultant enforcement of the Wire Act as may relate to intermediate routing transactions could negatively impact our WAP games business as well as our FinTech cash access business and our interactive real money gaming business.

Moreover, in addition to the risk of enforcement action, we are also at risk of loss of business reputation in the event of any potential legal or regulatory investigation, whether or not we are ultimately accused of or found to have committed any violation. For a summary of gaming regulations that could affect our business, see “Item 1. Business — Regulation.”

Many of the financial services that we provide are subject to extensive rules and regulations, which may harm our business.

Our Central Credit gaming patron credit bureau and check verification and warranty services are subject to the FCRA, the FACTA, and similar state laws. The collection practices that are used by our third-party providers and us may be subject to the FDCPA and applicable state laws relating to debt collection. All of our cash access services and patron marketing services are subject to the privacy provisions of state and federal law, including the Gramm-Leach-Bliley Act. Our POS debit card cash access transactions and ATM withdrawal services are subject to the Electronic Fund Transfer Act. Our ATM services are subject to the applicable state banking regulations in each jurisdiction in which we operate ATMs. Our ATM services may also be subject to state and local regulations relating to the imposition of daily limits on the amounts that may be withdrawn from ATMs, the location of ATMs, our ability to surcharge cardholders who use our ATMs, and the form and type of notices that must be disclosed regarding the provision of our ATM services. The cash access services we provide are subject to record keeping and reporting obligations under the Bank Secrecy Act and the USA PATRIOT Act of 2001. We are required to file SARs with respect to transactions completed at all gaming establishments where we provide our cash access services through a gaming establishment’s cashier or financial services center. If we are found to be noncompliant in any way with these laws, we could be subject to substantial civil and criminal penalties. In jurisdictions in which we serve as a check casher, we are subject to the applicable state licensing requirements and regulations governing check cashing activities. We are also subject to various state licensing requirements and regulations governing money transmitters.

We are subject to formal or informal audits, inquiries, or reviews from time to time by the regulatory authorities that enforce these financial services rules and regulations. In the event that any regulatory authority determines that the manner in which we provide cash access, patron marketing, or gaming patron credit bureau services is not in compliance with existing rules and regulations, or the regulatory authorities adopt new rules or regulations that prohibit or restrict the manner in which we provide cash access, patron marketing, or gaming patron credit bureau services, then these regulatory authorities may force us to modify the manner in which we operate or force us to stop processing certain types of cash access transactions or providing patron marketing or gaming patron credit bureau services altogether. We may also be required to pay substantial penalties and fines if we fail to comply with applicable rules and regulations. For example, if we fail to file CTRs or SARs on a timely basis or if we are found to be noncompliant in any way with either the Bank Secrecy Act or the USA PATRIOT Act of 2001, we could be subject to substantial civil and criminal penalties. In addition, our failure to comply with applicable rules and regulations could subject us to private litigation.

We are subject to extensive rules and regulations of card associations, including VISA, MasterCard, and EFT networks that are always subject to change, which may harm our business.

Our cash access business is subject to the extensive rules and regulations of the leading card associations, VISA and MasterCard. The rules and regulations do not expressly address some of the contexts and settings in which we process cash access transactions or do so in a manner subject to varying interpretations. As an example, we and certain of our providers must comply with the PCI

Data Security Standard. The failure by any of such providers to comply with such standards could result in our being fined or being prohibited from processing transactions through VISA, MasterCard, and other card and payment networks. We also process transactions involving the use of the proprietary credit cards such as those offered by Discover Card and American Express, as well as other regional cards issued in certain international markets. The rules and regulations of the proprietary credit card networks that service these cards present risks to us that are similar to those posed by the rules and regulations of VISA, MasterCard, and other payment networks.

The card associations' and payment networks' rules and regulations are always subject to change, and the card associations or payment networks may modify their rules and regulations from time to time. Our inability to anticipate changes in rules and regulations, or the interpretation or application thereof, may result in substantial disruption to our business. In the event that the card associations, payment networks or our sponsoring banks determine that the manner in which we process certain types of card transactions is not in compliance with existing rules and regulations, or if the card associations or payment networks adopt new rules or regulations that prohibit or restrict the manner in which we process certain types of card transactions, we may be forced to pay a fine, modify the manner in which we operate our business, or stop processing certain types of cash access transactions altogether, any of which could have a material adverse effect on our business, financial condition, operations, or cash flows.

Card associations and EFT networks may change interchange reimbursement rates or network operating fees or assess new fees associated with the processing and settlement of our cash access transactions or otherwise change their operating rules and regulations without our consent and such changes may affect our revenues, cost of revenues (exclusive of depreciation and amortization), net income, and our business generally.

We receive income from issuers of ATM, credit, and debit cards for certain transactions performed on our ATMs related to cash dispensing or certain other non-financial transactions such as balance inquiries. The EFT networks may also charge certain fees related to the performance of these transactions. We refer to the net of this income and fees as reverse interchange. The amount of this reverse interchange income is determined by the card associations and EFT networks, and this income is subject to decrease at their discretion.

We pay interchange and other network fees for services to the credit card associations and EFT networks that they provide in settling transactions routed through their networks. Collectively we call these charges interchange fees. Subject to the limitations imposed by federal regulations such as the Durbin Amendment or other regulations that may be enacted, the amounts of these interchange fees are determined based upon the sole discretion of the card associations and EFT networks and are subject to increase at any time. Competitive pressures might prevent us from passing all or some of these fees through to our customers in the future. To the extent that we are unable to pass through to our customers all or any portion of any increase in interchange or other network processing fees, our cost of revenues (exclusive of depreciation and amortization) would increase and our net income would decrease, assuming no change in transaction volumes. Any such decrease in net income could have a material adverse effect on our business, financial condition, operations, or cash flows. In addition, proposed changes to the Dodd-Frank Act, such as the repeal of the Durbin Amendment, if adopted, or other regulation that could be implemented to limit the amount of surcharge or service fees charged for our cash access transactions could have a negative impact on revenue and gross margins (exclusive of depreciation and amortization) as a result of reduced service fee revenue and potential increases in interchange rates merchants pay for debit card transactions.

The card associations and EFT networks may also elect to impose new membership or other fees, or implement new rules and regulations with respect to processing transactions through their networks, and any such new fees, rules, or regulations could have a material adverse effect on our business, financial condition, operations, or cash flows.

The provision of our credit card access, POS debit, and ATM services are dependent upon our continued sponsorship into the VISA and MasterCard card associations, and the suspension or termination of our sponsorship would result in a material adverse effect on our business, financial condition, operations, or cash flows.

We process virtually all of our credit card cash access, POS debit, and ATM service transactions through the VISA and MasterCard card associations, both domestically and internationally, and virtually all of the revenue that we derive from our credit card cash access, POS debit, and ATM services is dependent upon our continued sponsorship into the VISA and MasterCard associations. We cannot provide these services without sponsorship into the VISA and MasterCard associations by a member financial institution. Our failure to maintain our current sponsorship arrangements or secure alternative sponsorship arrangements into the VISA and MasterCard associations could have a material adverse effect on our business, financial condition, operations, or cash flows.

Our ATM service business is subject to extensive rules and regulations, which may harm our business.

Our ATM services are subject to the applicable federal, state, and local banking regulations in each jurisdiction in which we operate ATMs, which regulations relate to the imposition of daily limits on the amounts that may be withdrawn from ATMs, the location of ATMs, our ability to surcharge cardholders who use our ATMs, and the form and type of notices that must be disclosed with

respect to the fees we charge to patrons in connection with our ATM services. ATMs are also subject to requirements of the Americans with Disabilities Act, which in general require that ATMs be accessible to individuals with disabilities, such as visually-impaired persons. These laws and regulations may impose significant burdens on our ability to operate ATMs profitably in some locations, or at all, and our business, financial condition, operations, or cash flows could be materially adversely affected. Moreover, because these regulations are subject to change, we may be forced to modify our ATM operations in a manner inconsistent with the assumptions upon which we relied when entering into contracts to provide ATM services at gaming establishments. If federal, state, local, or foreign authorities adopt new laws or regulations, or raise enforcement levels on existing laws and regulations that make it more difficult for us to operate our ATM business, then our revenues and earnings may be negatively affected. If legislation or regulations are enacted in the future that adversely impact our ATM business, we may be forced to modify our operations in a manner inconsistent with the assumptions upon which we relied when entering into contracts to provide ATMs at gaming establishments and our business, financial condition, operations, or cash flows could suffer a material adverse effect.

Consumer privacy laws may change, requiring us to change our business practices or expend significant amounts on compliance with such laws.

Our patron marketing and database services depend on our ability to collect and use non-public personal information relating to patrons who use our products and services and the transactions they consummate using our services. We are required by federal and state privacy laws and rules to safeguard and protect the privacy of such information, to make disclosures to patrons regarding our privacy and information sharing policies and, in some cases, to provide patrons an opportunity to “opt out” of the use of their information for certain purposes. The failure or circumvention of the means by which we safeguard and protect the privacy of information we gather may result in the dissemination of non-public personal information, which may harm our reputation and may expose us to liability to the affected individuals and regulatory enforcement proceedings or fines. Regulators reviewing our policies and practices may require us to modify our practices in a material or immaterial manner or impose fines or other penalties if they believe that our policies and practices do not meet the necessary standard. To the extent that our patron marketing and database services have failed, are now failing, or in the future fail to comply with applicable law, our privacy policies or the notices that we provide to patrons, we may become subject to actions by a regulatory authority or patrons which cause us to pay monetary penalties or require us to modify the manner in which we provide patron marketing and database services. To the extent that patrons exercise their right to “opt out,” our ability to leverage existing and future databases of information would be curtailed. Consumer and data privacy laws are evolving, and due to recent high profile thefts and losses of sensitive consumer information from protected databases, such laws may be broadened in their scope and application, impose additional requirements and restrictions on gathering, encrypting and using patron information or narrow the types of information that may be collected or used for marketing or other purposes or require patrons to “opt-in” to the use of their information for specific purposes, or impose additional fines or potentially costly compliance requirements which will hamper the value of our patron marketing and database services.

Risks Related to Our Stock

Our common stock has been publicly traded since September 2005, and we expect that the price of our common stock will fluctuate substantially.

There has been a public market for our common stock since September 2005. The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control, including those described above under “—Risks Related to Our Business,” “—Risks Related to Regulation of Our Industry”, and the following:

- our failure to maintain our current customers, including because of consolidation in the gaming industry;
- increases in commissions paid to gaming establishments as a result of competition;
- increases in interchange rates, processing fees, or other fees paid by us;
- decreases in reverse interchange rates paid to us;
- actual or anticipated fluctuations in our or our competitors’ revenue, operating results, or growth rate;
- our inability to adequately protect or enforce our intellectual property rights;
- any adverse results in litigation initiated by us or by others against us;
- our inability to make payments on our outstanding indebtedness as they become due or our inability to undertake actions that might otherwise benefit us based on the financial and other restrictive covenants contained in the New Credit Facilities and the indenture governing the 2017 Unsecured Notes;

- the loss, or failure, of a significant supplier or strategic partner to provide the goods or services that we require from them;
- our inability to introduce successful, new products and services in a timely manner or the introduction of new products or services by our competitors that reduce the demand for our products and services;
- our failure to successfully enter new markets or the failure of new markets to develop in the time and manner that we anticipate;
- announcements by our competitors of significant new contracts or contract renewals or of new products or services;
- changes in general economic conditions, financial markets, the gaming industry, or the payments processing industry;
- the trading volume of our common stock;
- sales of common stock or other actions by our current officers, directors, and stockholders;
- acquisitions, strategic alliances, or joint ventures involving us or our competitors;
- future sales of our common stock or other securities;
- the failure of securities analysts to cover our common stock or changes in financial estimates or recommendations by analysts;
- our failure to meet the revenue, net income, or earnings per share estimates of securities analysts or investors;
- departures of key personnel or our inability to attract or retain key personnel;
- our ability to prevent, mitigate, or timely recover from cybersecurity breaches, attacks, and compromises with respect to our infrastructure, systems, and information technology environment;
- terrorist acts, theft, vandalism, fires, floods, or other natural disasters; and
- rumors or speculation as to any of the above which we may be unable to confirm or deny due to disclosure restrictions imposed on us by law or which we otherwise deem imprudent to comment upon.

Some provisions of our amended and restated certificate of incorporation and amended and restated bylaws may delay or prevent transactions that many stockholders may favor.

Some provisions of our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying, discouraging, or preventing a merger or acquisition that our stockholders may consider favorable or a change in our management or our Board of Directors. These provisions:

- divide our Board of Directors into three separate classes serving staggered three-year terms, which will have the effect of requiring at least two annual stockholder meetings instead of one, to replace a majority of our directors, which could have the effect of delaying or preventing a change in our control or management;
- provide that special meetings of stockholders can only be called by our Board of Directors, Chairman of the Board, or Chief Executive Officer. In addition, the business permitted to be conducted at any special meeting of stockholders is limited to the business specified in the notice of such meeting to the stockholders;
- provide for an advance notice procedure with regard to business to be brought before a meeting of stockholders which may delay or preclude stockholders from bringing matters before a meeting of stockholders or from making nominations for directors at a meeting of stockholders, which could delay or deter takeover attempts or changes in management;
- eliminate the right of stockholders to act by written consent so that all stockholder actions must be effected at a duly called meeting;
- provide that directors may only be removed for cause with the approval of stockholders holding a majority of our outstanding voting stock;
- provide that vacancies on our Board of Directors may be filled by a majority, although less than a quorum, of directors in office and that our Board of Directors may fix the number of directors by resolution;

- allow our Board of Directors to issue shares of preferred stock with rights senior to those of the common stock and that otherwise could adversely affect the rights and powers, including voting rights and the right to approve or not to approve an acquisition or other change in control, of the holders of common stock, without any further vote or action by the stockholders; and
- do not provide for cumulative voting for our directors, which may make it more difficult for stockholders owning less than a majority of our stock to elect any directors to our Board of Directors. In addition, we are also subject to Section 203 of the Delaware General Corporation Law, which provides, subject to enumerated exceptions, that if a person acquires 15% or more of our voting stock, the person is an “interested stockholder” and may not engage in “business combinations” with us for a period of three years from the time the person acquired 15% or more of our voting stock.

These provisions may have the effect of entrenching our management team and may deprive our stockholders of the opportunity to sell shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a premium could reduce the price of our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We occupy real estate properties mostly in the United States and, to a lesser degree, internationally that are under lease agreements. We believe that these facilities are adequate for our business needs as presently conducted.

We primarily occupy the following leased real estate properties:

Location	Sq. Ft	Purpose	Segment
Austin, Texas	204,256	Games Headquarters and Operations	Games
Las Vegas, Nevada	106,873	Corporate Headquarters; FinTech Headquarters and Operations	FinTech; Games
Reno, Nevada	17,138	Game Design Studio	Games
Chicago, Illinois	17,124	Game Design Studio	Games

In addition, we lease several other less significant real estate properties that are used to support our products and services.

Item 3. Legal Proceedings.

We are involved in various investigations, claims, and lawsuits in the ordinary course of our business. Although the outcome of our legal proceedings cannot be predicted with certainty and no assurances can be provided, based upon current information, we do not believe the liabilities, if any, which may ultimately result from the outcome of such matters, individually or in the aggregate, will have a material adverse impact on our financial position, liquidity, or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed for trading on the New York Stock Exchange under the symbol “EVRI.” On March 1, 2019, there were eight holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these record holders.

Common Stock Repurchases

We did not have a share repurchase program in effect for the years ended December 31, 2018, 2017, and 2016.

Issuer Purchases and Withholding of Equity Securities

We repurchased or withheld from restricted stock awards 17,552, 15,457, and 18,717 shares of our common stock at an aggregate purchase price of \$0.1 million for the years ended December 31, 2018, 2017, and 2016, respectively, to satisfy the minimum applicable tax withholding obligations incident to the vesting of such restricted stock awards. The following table includes the monthly repurchases or withholdings of our common stock during the fourth quarter ended December 31, 2018:

	<u>Total Number of Shares Purchased ⁽¹⁾ (in thousands)</u>	<u>Average Price per Share ⁽²⁾</u>
Tax Withholdings		
10/1/18 - 10/31/18	6.4	\$ 7.04
11/1/18 - 11/30/18	0.6	\$ 7.41
12/1/18 - 12/31/18	3.1	\$ 5.26
Total	<u>10.1</u>	<u>\$ 6.52</u>

(1) Represents the shares of common stock that were withheld from restricted stock awards to satisfy the minimum applicable tax withholding obligations incident to the vesting of such restricted stock awards. There are no limitations on the number of shares of common stock that may be withheld from restricted stock awards to satisfy the minimum tax withholding obligations incident to the vesting of restricted stock awards.

(2) Represents the average price per share of common stock withheld from restricted stock awards on the date of withholding.

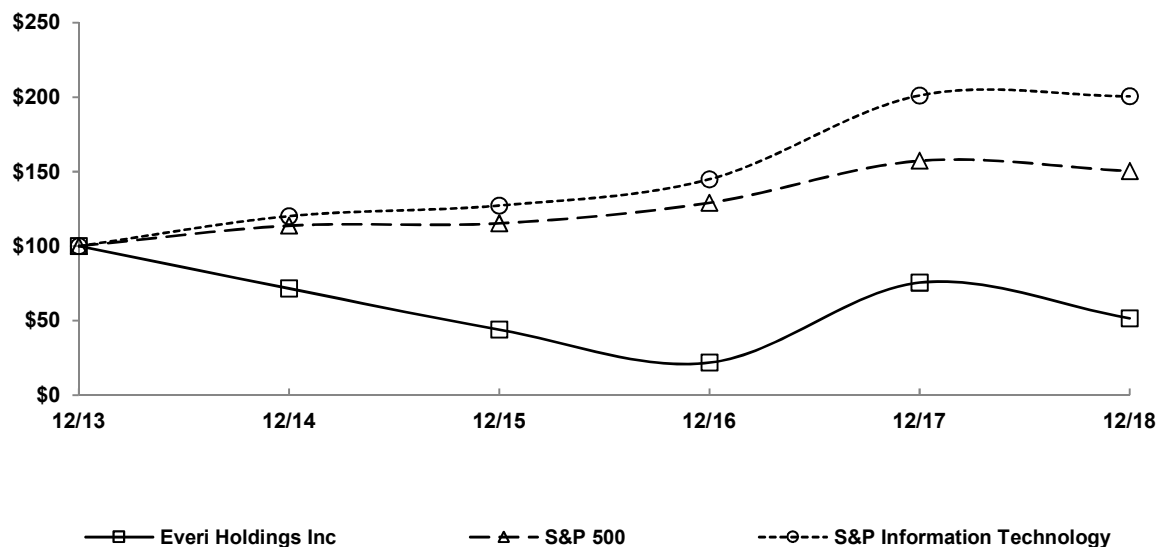
Stock Performance Graph

The line graph below compares the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor’s (“S&P”) 500 Index and the S&P Information Technology Index during the five-year period ended December 31, 2018.

The graph assumes that \$100 was invested on December 31, 2013 in our common stock, in the S&P 500 Index and the S&P Information Technology Index, and that all dividends were reinvested. Research Data Group, Inc. furnished this data and the cumulative total stockholder returns for our common stock, the S&P 500 Index and the S&P Information Technology Index are based on the calendar month end closing prices. The comparisons in the graph are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common stock.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Everi Holdings Inc, the S&P 500 Index,
and the S&P Information Technology Index



*\$100 invested on 12/31/13 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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The performance graph and the related chart and text are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K, and are not being filed for purposes of Section 18 of the Exchange Act and are not to be incorporated by reference in any filing by us under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Item 6. Selected Financial Data.

The following selected historical financial data has been derived from, and should be read in conjunction with, our Financial Statements and Results of Operations included elsewhere in this Annual Report on Form 10-K. Our selected consolidated financial data may not be indicative of our future financial condition or results of operations (in thousands, except per share amounts).

	Year Ended December 31,				
	2018 ⁽¹⁾	2017 ⁽²⁾	2016 ⁽³⁾	2015 ⁽⁴⁾⁽⁵⁾	2014 ⁽⁶⁾
Income Statement Data					
Revenues	\$ 469,515	\$ 974,948	\$ 859,456	\$ 826,999	\$ 593,053
Operating income (loss)	85,813	81,819	(118,555)	(9,730)	33,782
Net income (loss)	12,356	(51,903)	(249,479)	(104,972)	12,140
Basic earnings (loss) per share	0.18	(0.78)	(3.78)	(1.59)	0.18
Diluted earnings (loss) per share	0.17	(0.78)	(3.78)	(1.59)	0.18
Weighted average common shares outstanding					
Basic	69,464	66,816	66,050	65,854	65,780
Diluted	73,796	66,816	66,050	65,854	66,863

	At and For the Year Ended December 31,				
	2018⁽¹⁾	2017⁽²⁾	2016⁽³⁾	2015⁽⁴⁾⁽⁵⁾⁽⁶⁾	2014⁽⁷⁾
Balance sheet data					
Cash and cash equivalents	\$ 297,532	\$ 128,586	\$ 119,051	\$ 102,030	\$ 89,095
Working capital	17,304	(12,040)	(1,875)	2,452	12,550
Total assets	1,548,261	1,537,074	1,408,163	1,550,385	1,707,285
Total borrowings	1,163,216	1,167,843	1,121,880	1,139,899	1,188,787
Stockholders' (deficit) equity	(108,895)	(140,633)	(107,793)	137,420	231,473
Cash flow data					
Net cash provided by operating activities	\$ 294,286	\$ 95,828	\$ 131,711	\$ 124,587	\$ 24,531
Net cash used in investing activities	(123,350)	(109,979)	(88,054)	(85,549)	(1,085,847)
Net cash provided by (used in) financing activities	11	22,394	(24,922)	(24,551)	1,037,423

- (1) On January 1, 2018, we adopted ASC 606 using the modified retrospective method, which resulted in the recording of an immaterial cumulative adjustment in the amount of approximately \$4.4 million to accumulated deficit as of the adoption date. Our prior period results were not recast to reflect the new revenue recognition standard under the modified retrospective method.
- (2) During 2017, we refinanced our senior secured term loan, senior secured notes and senior unsecured notes, which resulted in approximately \$51.8 million of loss on extinguishment of debt.
- (3) During 2016, the Games reporting unit had a goodwill impairment of \$146.3 million.
- (4) 2015 amounts include a full year of financial results for Everi Games.
- (5) During 2015, the Games reporting unit had a goodwill impairment of \$75.0 million.
- (6) We reclassified \$23.7 million of debt issuance costs related to our outstanding debt from the non-current portion of other assets to contra-liabilities included in long-term debt as of December 31, 2015 in connection with our retrospective adoption of Accounting Standards Update (“ASU”) No. 2015-03 in 2016. This reclassification decreased the December 31, 2015 balance of both total assets and total borrowings.
- (7) 2014 amounts affected by the Merger for which total merger consideration of \$1.1 billion on December 19, 2014 was paid and results of operations were recorded from the date of acquisition through December 31, 2014.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with “Item 1. Business,” “Item 6. Selected Financial Data,” and our Financial Statements included elsewhere in this Annual Report on Form 10-K and the information included in our other filings with the SEC.

This discussion includes forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the Private Securities Litigation Reform Act of 1995 and should be read in conjunction with the disclosure and information contained and referenced in “Cautionary Note Regarding Forward-Looking Statements” and “Item 1A. Risk Factors” included elsewhere in this Annual Report on Form 10-K.

Overview

Everi is a leading supplier of technology solutions for the casino gaming industry. We provide casino operators with a diverse portfolio of products including innovative gaming machines that power the casino floor, and casino operational and management systems that include comprehensive end-to-end payments solutions, critical intelligence offerings, and gaming operations efficiency technologies. Everi’s mission is to be a transformative force for casino operations by facilitating memorable player experiences, delivering reliable protection and security, and striving for customer satisfaction and operational excellence. We are divided into two primary business segments: “Everi Games” or “Games” and “Everi FinTech” or “FinTech”.

Items Impacting Comparability of Results of Operations

Our Financial Statements included in this report that present our financial condition and results of operations reflect the following transactions and events:

- On January 1, 2018, we adopted ASC 606 using the modified retrospective method, which requires us to evaluate whether any cumulative adjustment is required to be recorded to retained earnings (or accumulated deficit) as a result of applying the provisions set forth under ASC 606 for any existing arrangements not yet completed as of the adoption date of January 1, 2018. As a result, we recorded an immaterial cumulative adjustment in the amount of approximately \$4.4 million to accumulated deficit as of the adoption date. Revenues and costs related to certain contracts are recognized at a point in time under ASC 606 as the performance obligations related to certain types of sales are satisfied; whereas, previously these revenues and costs were recognized over a period of time under ASC 605.

Further, we previously reported costs and expenses related to our cash access services - which include commission expenses payable to casino operators, interchange fees payable to the network associations, and processing and related costs payable to other third party partners - as a cost of revenues. Under ASC 606, such costs are reflected as reductions to cash access services revenues on a net basis of presentation, since we do not control the cash advance and ATM services provided to a customer and, therefore, are acting as an agent whose performance obligation is to arrange for the provision of these services. In addition, we previously reported certain costs incurred in connection with our WAP platform, consisting primarily of the jackpot expenses, as cost of revenues. Under ASC 606, such costs are reflected as reductions to gaming operations revenues on a net basis of presentation. Our prior period results were not recast to reflect the new revenue recognition standard under the modified retrospective method.

- During the fourth quarter of 2017, we recorded a \$37.2 million loss on extinguishment of debt consisting of a \$26.3 million make-whole premium related to the satisfaction and redemption of the 2014 Unsecured Notes (defined herein) and approximately \$10.9 million for the write-off of related unamortized debt issuance costs and fees. An additional \$14.6 million loss on extinguishment of debt was incurred in the second quarter of 2017 for the unamortized deferred financing fees and discounts related to the extinguished term loan under the Prior Credit Facility and the redeemed Refinanced Secured Notes (both defined herein). Repricing of the New Term Loan Facility (defined herein) during the second quarter of 2018 did not result in a material loss on extinguishment of debt.
- In October of each year, we conduct our annual impairment test for our reporting units. Based on the results of our testing, there was no goodwill impairment for 2018 and 2017. We recorded goodwill impairment of approximately \$146.3 million related to our Games segment in 2016.
- The income tax benefit was \$9.7 million for the year ended December 31, 2018, as compared to an income tax benefit of \$20.2 million in the prior year period. The income tax benefit for the year ended December 31, 2018 reflected an effective income tax rate of negative 367.0%, which was less than the statutory federal rate of 21.0% primarily due to a decrease in the valuation allowance for deferred tax assets and an increase in a federal research credit. The income tax benefit for the year ended December 31, 2017 reflected an effective income tax rate of 28.0%, which was less than the statutory federal rate of 35.0%, primarily due to a decrease in the carrying value of our deferred tax liabilities as a result of the enactment of the 2017 Tax Act, offset by an increase in our valuation allowance for deferred tax assets.

As a result of the above transactions and events, the results of operations and earnings per share in the periods covered by our Financial Statements may not be directly comparable.

Trends and Developments Impacting our Business

Our strategic planning and forecasting processes include the consideration of economic and industry wide trends that may impact our Games and FinTech businesses. Below we have identified a number of trends that could have a material impact on our business:

- Casino gaming is dependent upon discretionary consumer spending, which is typically the first type of spending that is restrained by consumers when they are uncertain about their jobs and income. Global economic uncertainty in the marketplace may have an impact on casino gaming and ultimately the demand for new gaming equipment, which impacts both of our segments.
- The total North American installed slot base was slightly higher in 2018 when compared to 2017 and 2016. We expect flat to moderate growth in the forward replacement cycle for EGMs, which has a direct impact on the operations of our Games segment.
- The volume of sales and installations to new casino openings and new market expansions along with replacements to the existing gaming operators in North America is expected to continue to trend slightly upward in 2019. This could

positively impact the overall demand for slot machines in North America during 2019, which in turn may contribute to improved operations of our Games segment.

- We face continued competition from smaller competitors in the gaming cash access market and face additional competition from larger gaming equipment manufacturers and systems providers. This increased competition has resulted in pricing pressure for both our Games and FinTech businesses.
- Governmental oversight related to the cost of transaction processing and related fees to the consumer has increased in recent years. We expect the financial services and payments industry to respond to these legislative acts by changing other fees and costs, which may negatively impact our FinTech business in the future.
- Casino operators continue to try to broaden their appeal by focusing on investments in the addition of non-gaming amenities to their facilities, which could impact casino operator's capital allocation for games and payment solution products and impact both of our operating segments.

Impact of ASC Topic 842 on the Comparability of Our Results of Operations in Future Periods

As discussed in “Note 2 — Basis of Presentation and Summary of Significant Accounting Policies – Recent Accounting Guidance – Recent Accounting Guidance Not Yet Adopted,” in *Item 8: Financial Statements and Supplementary Data*, on January 1, 2019, the Company implemented the new lease accounting standard promulgated by the FASB. The Company adopted ASC 842 using the adoption date method. While we are finalizing the adoption procedures, we expect that the standard will have a material impact on our Balance Sheets, however, we do not expect that the standard will have a material impact on our Statements of Income (Loss). The most significant impact will be the recognition of right-of-use (“ROU”) assets and lease liabilities of operating leases, which are expected to be within a range of approximately 1% to 2% of total assets. We elected the practical expedients offered in the guidance, including the transition package.

Operating Segments

We report our financial performance based on two operating segments: (a) Games; and (b) FinTech. For additional information on our segments see “Item 1. Business” and “Note 18 — Segment Information” included elsewhere in this Annual Report on Form 10-K.

Results of Operations

Year ended December 31, 2018 compared to the year ended December 31, 2017

The following table presents our Results of Operations as reported for the year ended December 31, 2018 compared to the year ended December 31, 2017 as reported and as adjusted for the retrospective impact of ASC 606 to reflect the prior period results on a net basis of presentation (amounts in thousands)*:

	Year Ended						2018 As Reported vs			
	December 31, 2018		December 31, 2017				2017 As Adjusted			
	\$	%	\$	%	\$	\$	%	\$	%	
	As Reported		As Reported	Adjustments	As Adjusted					
Revenues										
Games revenues										
Gaming operations	\$ 168,146	36%	\$ 148,654	15%	\$ (565)	\$ 148,089	36%	\$ 20,057	14 %	
Gaming equipment and systems	87,038	18%	70,118	7%	—	70,118	17%	16,920	24 %	
Gaming other	3,794	1%	4,005	1%	—	4,005	1%	(211)	(5)%	
Games total revenues	258,978	55%	222,777	23%	(565)	222,212	54%	36,766	17 %	
FinTech revenues										
Cash access services	156,806	34%	707,222	73%	(563,637)	143,585	35%	13,221	9 %	
Equipment	20,977	4%	13,258	1%	—	13,258	3%	7,719	58 %	
Information services and other	32,754	7%	31,691	3%	—	31,691	8%	1,063	3 %	
FinTech total revenues	210,537	45%	752,171	77%	(563,637)	188,534	46%	22,003	12 %	
Total revenues	469,515	100%	974,948	100%	(564,202)	410,746	100%	58,769	14 %	
Costs and expenses										
Games cost of revenues⁽¹⁾										
Gaming operations	17,603	4%	15,741	2%	(565)	15,176	4%	2,427	16 %	
Gaming equipment and systems	47,121	9%	35,707	3%	—	35,707	8%	11,414	32 %	
Gaming other	3,285	1%	3,247	1%	—	3,247	1%	38	1 %	
Games total cost of revenues	68,009	14%	54,695	6%	(565)	54,130	13%	13,879	26 %	
FinTech cost of revenues⁽¹⁾										
Cash access services	9,717	2%	572,880	59%	(563,637)	9,243	2%	474	5 %	
Equipment	12,601	3%	7,717	1%	—	7,717	2%	4,884	63 %	
Information services and other	4,110	1%	3,253	—%	—	3,253	1%	857	26 %	
FinTech total cost of revenues	26,428	6%	583,850	60%	(563,637)	20,213	5%	6,215	31 %	
Operating expenses	142,298	30%	118,935	12%	—	118,935	29%	23,363	20 %	
Research and development	20,497	4%	18,862	2%	—	18,862	5%	1,635	9 %	
Depreciation	61,225	14%	47,282	5%	—	47,282	11%	13,943	29 %	
Amortization	65,245	14%	69,505	7%	—	69,505	17%	(4,260)	(6)%	
Total costs and expenses	383,702	82%	893,129	92%	(564,202)	328,927	80%	54,775	17 %	
Operating income	85,813	18%	81,819	8%	—	81,819	20%	3,994	5 %	

* Rounding may cause variances.

(1) Exclusive of depreciation and amortization.

	Year Ended							2018 As Reported vs		
	December 31, 2018		December 31, 2017					2017 As Adjusted		
	\$	%	\$	%	\$	\$	%	\$	%	
	As Reported		As Reported	Adjustments	As Adjusted					
Other expenses										
Interest expense, net of interest income	83,001	18 %	102,136	11 %	—	102,136	24 %	(19,135)	(19)%	
Loss on extinguishment of debt	166	— %	51,750	5 %	—	51,750	13 %	(51,584)	(100)%	
Total other expenses	83,167	18 %	153,886	16 %	—	153,886	37 %	(70,719)	(46)%	
Income (loss) before income tax	2,646	1 %	(72,067)	(7)%	—	(72,067)	(18)%	74,713	(104)%	
Income tax (benefit) provision	(9,710)	(2)%	(20,164)	(2)%	—	(20,164)	(5)%	10,454	(52)%	
Net income (loss)	\$ 12,356	3 %	\$ (51,903)	(5)%	—	\$ (51,903)	(13)%	\$ 64,259	124 %	

* Rounding may cause variances.

(1) Exclusive of depreciation and amortization.

Total Revenues

Total revenues increased by \$58.8 million, or 14%, to \$469.5 million for the year ended December 31, 2018, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was primarily due to higher Games and FinTech revenues.

Games revenues increased by \$36.8 million, or 17%, to \$259.0 million for the year ended December 31, 2018, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was primarily due to an increase in both unit sales and average selling prices and an increase in the average daily win per unit on a higher installed base of leased machines.

FinTech revenues increased by \$22.0 million, or 12%, to \$210.5 million for the year ended December 31, 2018, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was primarily due to higher transaction volumes from cash access services and increased equipment sales.

Costs and Expenses

Games cost of revenues increased by \$13.9 million, or 26%, to \$68.0 million for the year ended December 31, 2018, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was primarily due to the costs associated with the additional unit sales and an increase in costs related to our leased machines as a result of the increase in revenue.

FinTech cost of revenues increased by \$6.2 million, or 31%, to \$26.4 million for the year ended December 31, 2018, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was primarily due to the costs associated with the additional equipment sales.

Operating expenses increased by \$23.4 million, or 20%, to \$142.3 million for the year ended December 31, 2018, as compared to the same period in the prior year. This was primarily due to higher payroll and related expenses, consulting fees, advertising, promotion and trade show costs and software license fees for both our Games and FinTech segments. Our Games segment also incurred an increase in costs related to inventory disposals and leased assets impairment charges.

Research and development increased by \$1.6 million, or 9%, to \$20.5 million for the year ended December 31, 2018, as compared to the same period in the prior year. This was primarily due to higher payroll and related expenses for our Games segment.

Depreciation increased by \$13.9 million, or 29%, to \$61.2 million for the year ended December 31, 2018, as compared to the prior year period. This was primarily driven by the increase in the installed base of leased gaming machines and adjustments to the remaining useful lives of certain of the gaming fixed assets related to our Games segment.

Amortization decreased by \$4.3 million, or 6%, to \$65.2 million for the year ended December 31, 2018, as compared to the prior year period. This was primarily due to assets being fully amortized related to both our Games and FinTech segments.

Primarily as a result of the factors described above, operating income increased by \$4.0 million, or 5%, to \$85.8 million for the year ended December 31, 2018, as compared to the prior year as adjusted for the net versus gross retrospective impact of ASC 606. The operating income margin decreased from 20% to 18% for the year ended December 31, 2018, as adjusted for the net versus gross retrospective impact of ASC 606.

Interest expense, net of interest income, decreased by \$19.1 million, or 19%, to \$83.0 million for the year ended December 31, 2018, as compared to the prior year period. This was primarily due to lower interest expense as a result of our debt refinancing transactions in 2017 and an additional repricing of our New Term Loan Facilities in 2018, partially offset by an increase in our cash usage fees in connection with our commercial cash arrangements and the impact of the London Interbank Offered Rate (“LIBOR”) increases during the past year.

Loss on extinguishment of debt was \$0.2 million for the year ended December 31, 2018 in connection with the repricing transaction completed in May 2018 as compared to \$51.8 million for the year ended December 31, 2017, which consisted of \$26.3 million make-whole premium related to the satisfaction and redemption of the 2014 Unsecured Notes, approximately \$10.9 million for the write-off of related unamortized debt issuance costs and fees in the fourth quarter of 2017 and approximately \$14.6 million for the unamortized deferred financing fees and discounts related to our extinguished term loan under the Prior Credit Facility and the redeemed Refinanced Secured Notes in the second quarter of 2017.

Income tax benefit was \$9.7 million for the year ended December 31, 2018, as compared to an income tax benefit of \$20.2 million in the prior year period. The income tax benefit for the year ended December 31, 2018 reflected an effective income tax rate of negative 367.0%, which was less than the statutory federal rate of 21.0%, primarily due to a decrease in our valuation allowance for deferred tax assets and a research credit. The decrease in our valuation allowance is primarily due to the net operating loss during the year and the interest deduction limitation (deferred tax assets) which can be offset against our indefinite lived deferred tax liabilities. The tax benefit for the year ended December 31, 2017 reflected an effective income tax rate of 28.0%, which was less than the statutory federal rate of 35.0%, primarily due to a decrease in the carrying value of our deferred tax liabilities as a result of the enactment of the 2017 Tax Act, offset by an increase in the valuation allowance for deferred tax assets.

Primarily as a result of the foregoing, our net loss decreased by \$64.3 million, or 124%, to a net income of \$12.4 million for the year ended December 31, 2018, as compared to the prior year period.

Year ended December 31, 2017 compared to year ended December 31, 2016:

The following table presents our Results of Operations for the year ended December 31, 2017 compared to the year ended December 31, 2016 as reported and as adjusted for the retrospective impact of ASC 606 to reflect the prior period results on a net basis of presentation (amounts in thousands)*:

	Year Ended									2017 As Adjusted vs		
	December 31, 2017					December 31, 2016					2016 As Adjusted	
	\$	%	\$	\$	%	\$	%	\$	\$	%	\$	%
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
Revenues												
Games revenues												
Gaming operations	\$ 148,654	15%	\$ (565)	\$148,089	36%	\$ 152,514	18 %	—	\$ 152,514	40 %	\$ (4,425)	(3)%
Gaming equipment and systems	70,118	7%	—	70,118	17%	56,277	6 %	—	56,277	15 %	13,841	25 %
Gaming other	4,005	1%	—	4,005	1%	4,462	1 %	—	4,462	1 %	(457)	(10)%
Games total revenues	222,777	23%	(565)	222,212	54%	213,253	25 %	—	213,253	56 %	8,959	4 %
FinTech revenues												
Cash access services	707,222	73%	(563,637)	143,585	35%	601,874	70 %	(476,380)	125,494	32 %	18,091	14 %
Equipment	13,258	1%	—	13,258	3%	14,995	2 %	—	14,995	4 %	(1,737)	(12)%
Information services and other	31,691	3%	—	31,691	8%	29,334	3 %	—	29,334	8 %	2,357	8 %
FinTech total revenues	752,171	77%	(563,637)	188,534	46%	646,203	75 %	(476,380)	169,823	44 %	18,711	11 %
Total revenues	974,948	100%	(564,202)	410,746	100%	859,456	100 %	(476,380)	383,076	100 %	27,670	7 %
Costs and expenses												
Games cost of revenues⁽¹⁾												
Gaming operations	15,741	2%	(565)	15,176	4%	15,265	2 %	—	15,265	4 %	(89)	(1)%
Gaming equipment and systems	35,707	4%	—	35,707	8%	31,602	4 %	—	31,602	8 %	4,105	13 %
Gaming other	3,247	—%	—	3,247	1%	3,441	— %	—	3,441	1 %	(194)	(6)%
Games total cost of revenues	54,695	6%	(565)	54,130	13%	50,308	6 %	—	50,308	13 %	3,822	8 %
FinTech cost of revenues⁽¹⁾												
Cash access services	572,880	59%	(563,637)	9,243	2%	485,061	57 %	(476,380)	8,681	2 %	562	6 %
Equipment	7,717	1%	—	7,717	2%	9,889	1 %	—	9,889	3 %	(2,172)	(22)%
Information services and other	3,253	—%	—	3,253	1%	3,756	— %	—	3,756	1 %	(503)	(13)%
FinTech total cost of revenues	583,850	60%	(563,637)	20,213	5%	498,706	58 %	(476,380)	22,326	6 %	(2,113)	(9)%
Operating expenses	118,935	12%	—	118,935	28%	118,709	14 %	—	118,709	31 %	226	— %
Research and development	18,862	2%	—	18,862	5%	19,356	2 %	—	19,356	5 %	(494)	(3)%
Goodwill impairment	—	—%	—	—	—%	146,299	17 %	—	146,299	38 %	(146,299)	(100)%
Depreciation	47,282	5%	—	47,282	12%	49,995	6 %	—	49,995	13 %	(2,713)	(5)%
Amortization	69,505	7%	—	69,505	17%	94,638	11 %	—	94,638	25 %	(25,133)	(27)%
Total costs and expenses	893,129	92%	(564,202)	328,927	80%	978,011	114 %	(476,380)	501,631	131 %	(172,704)	(34)%
Operating income	81,819	8%	—	81,819	20%	(118,555)	(14)%	—	(118,555)	(31)%	200,374	(169)%

* Rounding may cause variances.

(1) Exclusive of depreciation and amortization.

	Year Ended									2017 As Adjusted vs		
	December 31, 2017						December 31, 2016			2016 As Adjusted		
	\$	%	\$	\$	%	\$	%	\$	\$	%	\$	%
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
Other expenses												
Interest expense, net of interest income	102,136	10 %	—	102,136	25 %	99,228	12 %	—	99,228	26 %	2,908	3 %
Loss on extinguishment of debt	51,750	6 %	—	51,750	12 %	—	— %	—	—	— %	51,750	— %
Total other expenses	153,886	16 %	—	153,886	37 %	99,228	12 %	—	99,228	26 %	54,658	55 %
Income (loss) before income tax	(72,067)	(7)%	—	(72,067)	(18)%	(217,783)	(25)%	—	(217,783)	(57)%	145,716	(67)%
Income tax (benefit) provision	(20,164)	(2)%	—	(20,164)	(5)%	31,696	4 %	—	31,696	8 %	(51,860)	(164)%
Net income (loss)	\$51,903	(5)%	—	\$ (51,903)	(13)%	\$249,479	(29)%	—	\$249,479	(65)%	\$197,576	(79)%

* Rounding may cause variances.

(1) Exclusive of depreciation and amortization.

Total Revenues

Total revenues increased by \$27.7 million, or 7%, to \$410.7 million for the year ended December 31, 2017, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was due to increased FinTech and Games revenues.

Games revenues increased by \$9.0 million, or 4%, to \$222.2 million for the year ended December 31, 2017, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was primarily due to an increase in units sold, partially offset by lower daily win per unit on leased games.

FinTech revenues increased by \$18.7 million, or 11%, to \$188.5 million for the year ended December 31, 2017, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was primarily due to higher dollar and transaction volume and fees earned from cash access services, new customer openings, the expansion of our ATM services in Canada, as well as overall growth in the segment.

Costs and Expenses

Games cost of revenues increased by \$3.8 million, or 8%, to \$54.1 million for the year ended December 31, 2017, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was primarily due to higher variable costs associated with increased unit sales.

FinTech cost of revenues decreased by \$2.1 million, or 9%, to \$20.2 million for the year ended December 31, 2017, as compared to the prior year period as adjusted for the net versus gross retrospective impact of ASC 606. This was primarily due to higher costs associated with higher equipment sales in 2016 as compared to 2017.

Operating expenses remained relatively consistent to the prior year. This was primarily due to an increase in payroll and benefit-related expenses offset by the decrease in expenses related to the 2016 Bee Cave Games, Inc. (“Bee Cave”) loan impairment of approximately \$4.3 million that did not impact our 2017 results for our Games segment; and an increase in payroll and benefits-related expenses and professional services expenses offset by the decrease in expenses related to the 2016 separation costs for our former CEO that did not impact our 2017 results for our FinTech segment.

There was no goodwill impairment for the year ended December 31, 2017, as compared to \$146.3 million in the prior year period as a result of our October 1, 2016 annual goodwill assessment attributable to our Games reporting unit.

Research and development costs remained relatively consistent with prior year.

Depreciation decreased by \$2.7 million, or 5%, to \$47.3 million for the year ended December 31, 2017, as compared to the prior year period. This was primarily due to a decrease in depreciation from certain assets being fully depreciated in both our Games and FinTech segments.

Amortization decreased by \$25.1 million, or 27%, to \$69.5 million for the year ended December 31, 2017, as compared to the prior year period. This was primarily due to certain acquired intangible assets being fully amortized in the fourth quarter of 2016 for both our Games and FinTech segments.

Primarily as a result of the factors described above, operating income increased by \$200.4 million, or 169%, to an operating income of \$81.8 million for the year ended December 31, 2017, as compared to the prior year as adjusted for the net versus gross retrospective impact of ASC 606. The operating income margin as adjusted for the net versus gross retrospective impact of ASC 606 increased from negative 31% to a positive 20% for the year ended December 31, 2017.

Interest expense, net of interest income, increased by \$2.9 million, or 3%, to \$102.1 million for the year ended December 31, 2017, as compared to the prior year period. This was primarily attributable to higher interest recognized as a result of our debt restructuring activities in the fourth quarter of 2017 as well as higher cash usage fees, partially offset by lower interest expense as a result of our debt refinancing in May 2017.

Loss on extinguishment of debt for the year ended December 31, 2017 was \$51.8 million, which consisted of a \$26.3 million make-whole premium related to the satisfaction and redemption of the 2014 Unsecured Notes, approximately \$10.9 million for the write-off of related unamortized debt issuance costs and fees in the fourth quarter of 2017 and approximately \$14.6 million for the unamortized deferred financing fees and discounts related to our extinguished term loan under the Prior Credit Facility and the redeemed Refinanced Secured Notes in the second quarter of 2017. There was no loss on extinguishment of debt in the prior year period.

Income tax benefit was \$20.2 million for the year ended December 31, 2017, as compared to an income tax provision of \$31.7 million in the prior year period. The income tax benefit for the year ended December 31, 2017 reflected an effective income tax rate of 28.0%, which was less than the statutory federal rate of 35.0% primarily due to a decrease in the carrying value of our deferred tax liabilities as a result of the enactment of the 2017 Tax Act, offset by an increase in the valuation allowance for deferred tax assets. The income tax provision for the year ended December 31, 2016 reflected a negative effective income tax rate of 14.6%, which was less than the statutory federal rate of 35.0%, primarily due to an increase in our valuation allowance for deferred tax assets and the impairment of goodwill for which no tax benefit was provided for book purposes.

Primarily as a result of the foregoing, net loss decreased by \$197.6 million, or 79%, to \$51.9 million for the year ended December 31, 2017, as compared to the prior year period.

Critical Accounting Policies

The preparation of our financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires us to make estimates and assumptions that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in our Financial Statements. The SEC has defined critical accounting policies as the ones that are most important to the portrayal of the financial condition and results of operations, and which require management to make its most difficult and subjective judgments, often as a result of the need to make estimates about matters that are inherently uncertain. Based on this definition, we have identified our critical accounting policies as those addressed below. We also have other key accounting policies that involve the use of estimates, judgments, and assumptions. Refer to “Note 2 — Basis of Presentation and Summary of Significant Accounting Policies” within our Financial Statements included elsewhere in this Annual Report on Form 10-K for a summary of these policies. We believe that our estimates and assumptions are reasonable, based upon information presently available; however, actual results may differ from these estimates under different assumptions or conditions.

Goodwill. We had approximately \$640.5 million of goodwill on our Balance Sheets at December 31, 2018 resulting from acquisitions of other businesses. We test for impairment annually on a reporting unit basis, at the beginning of our fourth fiscal quarter, or more often under certain circumstances. Our reporting units are identified as operating segments or one level below and we evaluate our reporting units at least annually.

The annual evaluation of goodwill requires the use of different assumptions, estimates, or judgments in the goodwill impairment testing process, such as: the methodology, the estimated future cash flows of our reporting units, the discount rate used to discount such cash flows, and the market multiples of comparable companies. Management performs its annual forecasting process, which, among other factors, includes reviewing recent historical results, company-specific variables, and industry trends. This process is generally completed in the fourth quarter and considered in conjunction with the annual goodwill impairment evaluation. † Changes in forecasted operations can materially affect these estimates, which could materially affect our results of operations. Our estimates of fair value require significant judgment and are based on assumptions we determined to be reasonable; however, they are unpredictable and inherently uncertain, including: estimates of future growth rates, operating margins, and assumptions about the overall economic climate as well as the competitive environment for our reporting units.

There can be no assurance that our estimates and assumptions made for purposes of our goodwill testing as of the time of testing will prove to be accurate predictions of the future. If our assumptions regarding business plans, competitive environments, or anticipated growth rates are not correct, we may be required to record goodwill impairment charges in future periods, whether in connection with our next annual impairment testing, or earlier, if an indicator of an impairment is present prior to our next annual evaluation.

Property, Equipment, Leased Assets, and Other Intangible Assets. We have approximately \$116.3 million in net property, equipment, and leased assets and approximately \$287.4 million in net unamortized other intangible assets on our Balance Sheets at December 31, 2018. Such assets are stated at cost, less accumulated depreciation or amortization, computed primarily using the straight-line method over the estimated useful lives of such assets. We apply judgment in the determination of the useful lives, which are generally based on the nature of the assets and the underlying contractual obligations for certain assets.

Property, equipment, leased assets, and other intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or circumstances include, but are not limited to, a significant decrease in the fair value of the underlying business or market price of the asset, a significant adverse change in legal factors or business climate that could affect the value of an asset, or a current period operating or cash flow loss combined with a history of operating or cash flow losses. Impairment is indicated when undiscounted future cash flows do not exceed the carrying value of the asset. Any impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Determination of the amount and timing of future cash flows requires significant estimates and assumptions. If actual results differ from such estimates and assumptions, this may have a material impact on our conclusions.

Income Taxes. We are subject to income taxes in the United States as well as various states and foreign jurisdictions in which we operate. Due to the 2017 Tax Act, there is no U.S. federal tax on cash repatriation from foreign subsidiaries; however, we could be subject to foreign withholding tax and U.S. state income taxes. The 2017 Tax Act also subjects our foreign subsidiary earnings to the GILTI tax provisions. Some items of income and expense are not reported in tax returns and our Financial Statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes.

Our income tax returns are subject to examination by various tax authorities and while we believe that the positions taken in our tax returns are in accordance with the applicable laws, they may be challenged by the tax authorities, which may occur several years after such tax returns have been filed. We account for uncertainty in income tax positions by evaluating whether 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 our Financial Statements is the largest benefit that we believe has greater than a 50% likelihood of being realized upon settlement. Actual income taxes paid may vary from estimates depending upon changes in income tax laws, actual results of operations, and the final audit of tax returns by taxing authorities.

We recognize deferred tax assets, which generally represent tax benefits related to tax deductions or credits available in future tax returns, and apply a valuation allowance to reduce our deferred tax assets to the amounts that are more likely than not to be realized. The assessment of the valuation allowance involves significant estimates regarding future taxable income and when it is recognized, the amount and timing of taxable differences, the reversal of temporary differences and the implementation of tax-planning strategies. A valuation allowance is established based on the weight of available evidence, including both positive and negative indicators, if it is more likely than not that a portion, or all, of the deferred tax assets will not be realized. In addition, we rely on deferred tax liabilities in our assessment of the realizability of deferred tax assets if the temporary differences are anticipated to reverse in the same period and jurisdiction and the deferred tax liabilities are of the same character as the temporary differences giving rise to the deferred tax assets.

Revenue Recognition. We recognize revenue upon transferring control of goods or services to our customers in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We enter into contracts with customers that include various performance obligations consisting of goods, services, or combinations of goods and services. Timing of the transfer of control varies based on the nature of the contract.

The guidance in ASC 606 requires that we disclose significant judgments and estimates used in determination of our revenue recognition policy disclosed in “Note 2 — Basis of Presentation and Summary of Significant Accounting Policies – Recent Accounting Guidance – Recent Accounting Guidance Not Yet Adopted,” including those related to determination of performance obligations, the timing of satisfaction of such performance obligations, and the stand-alone selling price of each identified performance obligation. The critical judgments that we are required to make in our assessment of contracts with customers and which may have a material impact on the amount or timing of revenue recognized include:

- Determination of stand-alone selling price (“SSP”) - We are required to make a significant judgment as to whether there is a sufficient quantity of items sold or renewed on a stand-alone basis and those prices demonstrate an appropriate level of concentration to conclude that a SSP exists. The SSP of our goods and services are generally determined based on observable prices, an adjusted market assessment approach, or an expected cost plus margin approach. We utilize a residual approach only when the SSP for performance obligations with observable prices have been established and the remaining performance obligation in the contract with a customer does not have an observable price as it is uncertain or highly variable and, therefore, is not discernible.
- Contract combinations with multiple promised goods or services - Our contracts may include various performance obligations for promises to transfer multiple goods and services to a customer, especially since our Games and FinTech businesses may enter into multiple agreements with the same customer that meet the criteria to be combined for accounting purposes under ASC 606. For such arrangements, we use our judgment to analyze the nature of the promises made and determine whether each is distinct or should be combined with other promises in the contract based on the level of integration and interdependency between the individual deliverables.

Recent Accounting Guidance

For a description of our recently adopted accounting guidance and recent accounting guidance not yet adopted, see “Note 2 — Basis of Presentation and Summary of Significant Accounting Policies — Recent Accounting Guidance” within our Financial Statements included elsewhere in this Annual Report on Form 10-K.

Liquidity and Capital Resources

Overview

The following table presents selected information about our financial position (in thousands):

	At December 31,	
	2018	2017
Balance sheet data		
Total assets	\$ 1,548,261	\$ 1,537,074
Total borrowings	1,163,216	1,167,843
Total stockholders’ deficit	(108,895)	(140,633)
Cash available		
Cash and cash equivalents	\$ 297,532	\$ 128,586
Settlement receivables	82,359	227,403
Settlement liabilities	(334,198)	(317,744)
Net cash position⁽¹⁾	45,693	38,245
Undrawn revolving credit facility	35,000	35,000
Net cash available⁽¹⁾	\$ 80,693	\$ 73,245

- (1) Non-GAAP measure. In order to enhance investor understanding of our cash balance, we are providing in this Annual Report on Form 10-K net cash position and net cash available, which are not measures of our financial performance or position under GAAP. Accordingly, these measures should not be considered in isolation or as a substitute for, and should be read in conjunction with, our cash and cash equivalents prepared in accordance with GAAP. We define (i) net cash position as cash and cash equivalents plus settlement receivables less settlement liabilities and (ii) net cash available as net cash position plus undrawn amounts available under our New Revolving Credit Facility (defined herein). We present net cash position because our cash position, as measured by cash and cash equivalents, depends upon changes in settlement receivables and the timing of payments related to settlement liabilities. As such, our cash and cash equivalents can change substantially based upon the timing of our receipt of payments for settlement receivables and payments we make to customers for our settlement liabilities. We present net cash available as management monitors this amount in connection with its forecasting of cash flows and future cash requirements, both on short term and long term basis.

Cash Resources

Our cash balance, cash flows and line of credit are expected to be sufficient to meet our recurring operating commitments and to fund our planned capital expenditures for the foreseeable future. Cash and cash equivalents at December 31, 2018 included cash in non-U.S. jurisdictions of approximately \$21.8 million. Generally, these funds are available for operating and investment purposes within the jurisdiction in which they reside, and as a result of the 2017 Tax Act, enacted on December 22, 2017, we will not be subject to additional taxation if we repatriate foreign funds to the United States, except for potential withholding tax.

We expect that cash provided by operating activities will be sufficient for our operating and debt servicing needs during the foreseeable future. If not, we have sufficient borrowings available under our New Credit Facilities to meet additional funding requirements. We monitor the financial strength of our lenders on an ongoing basis using publicly-available information. Based upon that information, we believe there is not a likelihood that any of our lenders might not be able to honor their commitments under the Credit Agreement.

We provide cash settlement services to gaming establishments related to our cash access services, which involve the movement of funds between various parties involved in these types of transactions. We receive reimbursement from the patron's credit or debit card issuing financial institution for the amount owed to the gaming establishment plus the fee charged to the patron. These activities result in amounts due to us at the end of each business day that we generally recover over the next few business days, which are classified as settlement receivables on our Balance Sheets. As of December 31, 2018, we had \$82.4 million in settlement receivables. In addition, cash settlement services result in amounts due to gaming establishments for the cash disbursed to patrons through the issuance of a negotiable instrument or through electronic settlement for the face amount provided to patrons that we generally remit over the next few business days, which are classified as settlement liabilities on our Balance Sheets. As of December 31, 2018, we had \$334.2 million in settlement liabilities. As the timing of cash received from cash settlement services may differ, the total amount of cash held by us will fluctuate throughout the year.

Our cash and cash equivalents were \$297.5 million and \$128.6 million as of December 31, 2018 and December 31, 2017, respectively. Our net cash position after considering the impact of settlement receivables and settlement liabilities was \$45.7 million and \$38.2 million as of December 31, 2018 and December 31, 2017, respectively. Our net cash available after considering the net cash position and undrawn amounts available under our New Revolving Credit Facility was approximately \$80.7 million and \$73.2 million as of December 31, 2018 and December 31, 2017, respectively.

Cash Flows

The following table summarizes our cash flows for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	Year Ended December 31,			Increase/(Decrease)	
	2018	2017	2016	2018 vs 2017	2017 vs 2016
Cash flow activities					
Net cash provided by operating activities	\$ 294,286	\$ 96,259	\$ 131,899	\$ 198,027	\$ (35,640)
Net cash used in investing activities	(123,350)	(109,780)	(88,148)	(13,570)	(21,632)
Net cash provided by (used in) financing activities	11	22,394	(24,922)	(22,383)	47,316
Effect of exchange rates on cash	(1,370)	1,292	(1,714)	(2,662)	3,006
Cash and cash equivalents					
Net increase for the period	169,577	10,165	17,115	159,412	(6,950)
Balance, beginning of the period	129,604	119,439	102,324	10,165	17,115
Balance, end of the period	\$ 299,181	\$ 129,604	\$ 119,439	\$ 169,577	\$ 10,165

Cash flows provided by operating activities were \$294.3 million, \$96.3 million, and \$131.9 million for the years ended December 31, 2018, 2017, and 2016, respectively. Cash flows provided by operating activities increased by \$198.0 million for the year ended December 31, 2018, as compared to the prior year period, primarily attributable to the changes in working capital associated with cash settlement services from our FinTech segment, and the reduction in cash paid for interest. Cash flows provided by operating activities decreased by \$35.6 million for the year ended December 31, 2017, as compared to the prior year period. This was primarily attributable to the changes in working capital associated with settlement receivables and settlement liabilities from our FinTech segment.

Cash flows used in investing activities were \$123.4 million, \$109.8 million, and \$88.1 million for the years ended December 31, 2018, 2017, and 2016, respectively. Cash flows used in investing activities increased by \$13.6 million for the year ended December

31, 2018, as compared to the prior year period, primarily attributable to an increase in capital expenditures, and higher placement fee arrangements in our Games segment. Cash flows used in investing activities increased by \$21.6 million for the year ended December 31, 2017, as compared to the prior year period. This was primarily attributable to an increase in capital expenditures, higher placement fee arrangements in our Games segment, and decreased sales of fixed assets.

Cash flows provided by financing activities were \$11,000 and \$22.4 million for the year ended December 31, 2018 and 2017, respectively, compared to \$24.9 million of cash flows used in financing activities for the year ended December 31, 2016. Cash flows provided by financing activities decreased by \$22.4 million in the year ended December 31, 2018, as compared to the prior year period, primarily attributable to less debt restructuring activities completed in 2018. Cash flows provided by financing activities increased by \$47.3 million in the year ended December 31, 2017, as compared to the prior period. This was primarily attributable to our debt restructuring activities completed in 2017 and an increase in proceeds from the exercise of stock options.

We have not declared or paid any cash dividends on our capital stock as we intend to retain our earnings and utilize them for the repayment of outstanding debt and to finance the growth and development of our business. Any future change in our dividend policy will be made at the discretion of our Board of Directors, and will depend on our contractual restrictions, results of operations, earnings, capital requirements, and other factors considered relevant by our Board of Directors. In addition, the New Credit Facilities and the indenture governing the 2017 Unsecured Notes limit our ability to declare and pay cash dividends.

Long-Term Debt

For additional information regarding our credit agreement and other debt as well as interest rate risk see “Contractual Obligations” in this Item 7 below, Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk,” and Item 8. Financial Statements and Supplementary Data “Note 12 — Long-Term Debt.”

Contractual Obligations

The following summarizes our contractual cash obligations (in thousands):

	At December 31,						
	Total	2019	2020	2021	2022	2023	Thereafter
Contractual obligations							
Debt obligations ⁽¹⁾	\$ 1,182,700	\$ 8,200	\$ 8,200	\$ 8,200	\$ 8,200	\$ 8,200	\$ 1,141,700
Estimated interest obligations ⁽²⁾	435,709	73,566	73,186	72,769	72,189	71,730	72,269
Operating lease obligations ⁽³⁾	19,721	5,570	5,680	4,598	2,799	1,074	—
Purchase obligations ⁽⁴⁾	66,463	56,233	7,887	1,835	508	—	—
Total contractual obligations	\$ 1,704,593	\$ 143,569	\$ 94,953	\$ 87,402	\$ 83,696	\$ 81,004	\$ 1,213,969

- (1) We are required to make principal payments of 0.25% per quarter of the initial aggregate principal, with the final principal repayment installment on the maturity date and may also be required to make an excess cash flow payment that is based on full year end earnings and our consolidated secured leverage ratio in effect at that time. The above table does not reflect any future payments related to excess cash flow payments.
- (2) Estimated interest payments were computed using the interest rate in effect at December 31, 2018 multiplied by the principal balance outstanding after scheduled principal amortization payments. For our debt obligations, the weighted average rate assumed was approximately 6.16% until 2024, when the weighted average rate would increase to approximately 7.50% until the remaining debt is fully satisfied in 2025.
- (3) Our operating lease obligations primarily consist of real estate arrangements we enter into with third parties. See Note 13 for additional information regarding our operating leases.
- (4) Our purchase obligations primarily consist of open purchase orders and placement fee agreements related to our Games business as well as minimum transaction processing services from various third-party processors used by our FinTech business.

Other Liquidity Needs and Resources

We need cash to support our foreign operations. As a result of the 2017 Tax Act, enacted December 22, 2017, we will not be subject to additional taxation if we repatriate foreign funds to the United States, except for potential withholding tax. Depending on the jurisdiction and the treaty between different foreign jurisdictions our withholding tax rates can vary significantly. If we expand

our business into new foreign jurisdictions, we will rely on treaty-favored cross-border transfers of funds, the cash generated by our operations in those foreign jurisdictions, or alternate sources of working capital.

Off-Balance Sheet Arrangements

We have commercial arrangements with third party vendors to provide cash for certain of our ATMs. For the use of these funds, we pay a cash usage fee on either the average daily balance of funds utilized multiplied by a contractually defined cash usage rate or the amounts supplied multiplied by a contractually defined cash usage rate. These cash usage fees, reflected as interest expense within the Statements of Income (Loss), were \$7.0 million, \$4.9 million, and \$3.1 million for the years ended December 31, 2018, 2017, and 2016, respectively. We are exposed to interest rate risk to the extent that the applicable federal funds rate increases.

Under these agreements, the currency supplied by third party vendors remain their sole property until the funds are dispensed. As these funds are not our assets, supplied cash is not reflected on our Balance Sheets. The outstanding balances of ATM cash utilized by us from the third party vendors were \$224.7 million and \$289.8 million as of December 31, 2018 and 2017, respectively.

The primary commercial arrangement, the Contract Cash Solutions Agreement, as amended, with Wells Fargo Bank, N.A. (“Wells Fargo”) provides us with cash in the maximum amount of \$300.0 million with the ability to increase the amount by \$75 million over a 5-day period for special occasions, such as the period around New Year’s Day. The agreement currently expires on June 30, 2021 and will auto renew for additional one-year periods unless either party provides a 90-day written notice of its intent not to renew.

We are responsible for any losses of cash in the ATMs under this agreement and we self-insure for this risk. We incurred no material losses related to this self-insurance for the years ended December 31, 2018 and 2017.

Effects of Inflation

Our monetary assets that primarily consist of cash, receivables, inventory as well as our non-monetary assets that are mostly comprised of goodwill and other intangible assets, are not significantly affected by inflation. We believe that replacement costs of equipment, furniture, and leasehold improvements will not materially affect our operations. However, the rate of inflation affects our operating expenses, such as those for salaries and benefits, armored carrier expenses, telecommunications expenses, and equipment repair and maintenance services, which may not be readily recoverable in the financial terms under which we provide our Games and FinTech products and services to gaming establishments.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

In the normal course of business, we are exposed to foreign currency exchange risk. We operate and conduct business in foreign countries and, as a result, are exposed to movements in foreign currency exchange rates. Our exposure to foreign currency exchange risk related to our foreign operations is not material to our results of operations, cash flows, or financial condition. At present, we do not hedge this risk; however, we continue to evaluate such foreign currency translation exposure.

In the normal course of business, we have commercial arrangements with third party vendors to provide cash for certain of our ATMs. Under the terms of these agreements, we pay a monthly cash usage fee based upon the target federal funds rate. We are, therefore, exposed to interest rate risk to the extent that the applicable federal funds rate increases. The outstanding balance of ATM cash utilized by us from third party vendors was \$224.7 million as of December 31, 2018; therefore, each 1% increase in the applicable federal funds rate would have approximately a \$2.2 million impact on income before tax over a 12-month period.

The New Credit Facilities bear interest at rates that can vary over time. We have the option of having interest on the outstanding amounts under the New Credit Facilities paid using on a base rate or LIBOR. We have historically elected to pay interest based on LIBOR, and we expect to continue to do so for various maturities. The weighted average interest rate the New Credit Facilities was approximately 5.17% for the year ended December 31, 2018. Based upon the outstanding balance on the New Credit Facilities of \$807.7 million as of December 31, 2018, each 1% increase in the applicable Eurodollar Rate would have an \$8.1 million impact on interest expense over a 12-month period. The interest rate for the Unsecured Notes is fixed; therefore, an increase in LIBOR rates does not impact the related interest expense. At present, we do not hedge the risk related to the changes in the interest rate; however, we continue to evaluate such interest rate exposure.

Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Everi Holdings Inc. and subsidiaries
Las Vegas, NV

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Everi Holdings Inc. (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income (loss) and comprehensive income (loss), stockholders’ deficit, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 12, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 3 to the consolidated financial statements, the Company has changed its method of accounting for revenue from contracts with customers in 2018 due to the adoption of Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” and the related amendments.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

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

/s/ BDO USA, LLP

We have served as the Company’s auditor since 2015.

Las Vegas, Nevada
March 12, 2019

EVERI HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Revenues			
Games revenues			
Gaming operations	\$ 168,146	\$ 148,654	\$ 152,514
Gaming equipment and systems	87,038	70,118	56,277
Gaming other	3,794	4,005	4,462
Games total revenues	258,978	222,777	213,253
FinTech revenues			
Cash access services	156,806	707,222	601,874
Equipment	20,977	13,258	14,995
Information services and other	32,754	31,691	29,334
FinTech total revenues	210,537	752,171	646,203
Total revenues	469,515	974,948	859,456
Costs and expenses			
Games cost of revenues⁽¹⁾			
Gaming operations	17,603	15,741	15,265
Gaming equipment and systems	47,121	35,707	31,602
Gaming other	3,285	3,247	3,441
Games total cost of revenues	68,009	54,695	50,308
FinTech cost of revenues⁽¹⁾			
Cash access services	9,717	572,880	485,061
Equipment	12,601	7,717	9,889
Information services and other	4,110	3,253	3,756
FinTech total cost of revenues	26,428	583,850	498,706
Operating expenses	142,298	118,935	118,709
Research and development	20,497	18,862	19,356
Goodwill impairment	—	—	146,299
Depreciation	61,225	47,282	49,995
Amortization	65,245	69,505	94,638
Total costs and expenses	383,702	893,129	978,011
Operating income (expense)	85,813	81,819	(118,555)

	Year Ended December 31,		
	2018	2017	2016
Other expenses			
Interest expense, net of interest income	83,001	102,136	99,228
Loss on extinguishment of debt	166	51,750	—
Total other expenses	83,167	153,886	99,228
Income (loss) before income tax	2,646	(72,067)	(217,783)
Income tax (benefit) provision	(9,710)	(20,164)	31,696
Net income (loss)	12,356	(51,903)	(249,479)
Foreign currency translation	(1,745)	1,856	(2,427)
Comprehensive income (loss)	<u>\$ 10,611</u>	<u>\$ (50,047)</u>	<u>\$ (251,906)</u>
Earnings (loss) per share			
Basic	<u>\$ 0.18</u>	<u>\$ (0.78)</u>	<u>\$ (3.78)</u>
Diluted	<u>\$ 0.17</u>	<u>\$ (0.78)</u>	<u>\$ (3.78)</u>
Weighted average common shares outstanding			
Basic	69,464	66,816	66,050
Diluted	73,796	66,816	66,050

(1) Exclusive of depreciation and amortization.

The 2018 results include the impact of adopting the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification Topic 606 *Revenues from Contracts with Customers* (“ASC 606”). Refer to “Note 2 — Basis of Presentation and Summary of Significant Accounting Policies” and “Note 3 — Adoption of ASC 606, Revenue from Contracts with Customers” to our consolidated financial statements included in Part II, Item 8 of this Form 10-K for more information.

See notes to consolidated financial statements.

EVERI HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value amounts)

	At December 31,	
	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 297,532	\$ 128,586
Settlement receivables	82,359	227,403
Trade and other receivables, net of allowances for doubtful accounts of \$6,425 and \$4,706 at December 31, 2018 and December 31, 2017, respectively	64,387	47,782
Inventory	24,403	23,967
Prepaid expenses and other assets	20,259	20,670
Total current assets	488,940	448,408
Non-current assets		
Property, equipment and leased assets, net	116,288	113,519
Goodwill	640,537	640,589
Other intangible assets, net	287,397	324,311
Other receivables	8,847	2,638
Other assets	6,252	7,609
Total non-current assets	1,059,321	1,088,666
Total assets	\$ 1,548,261	\$ 1,537,074
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Settlement liabilities	\$ 334,198	\$ 317,744
Accounts payable and accrued expenses	129,238	134,504
Current portion of long-term debt	8,200	8,200
Total current liabilities	471,636	460,448
Non-current liabilities		
Deferred tax liability	27,867	38,207
Long-term debt, less current portion	1,155,016	1,159,643
Other accrued expenses and liabilities	2,637	19,409
Total non-current liabilities	1,185,520	1,217,259
Total liabilities	1,657,156	1,677,707
Commitments and contingencies (Note 13)		
Stockholders' deficit		
Common stock, \$0.001 par value, 500,000 shares authorized and 95,100 and 93,120 shares issued at December 31, 2018 and December 31, 2017, respectively	95	93
Convertible preferred stock, \$0.001 par value, 50,000 shares authorized and no shares outstanding at December 31, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	298,929	282,070
Accumulated deficit	(229,457)	(246,202)
Accumulated other comprehensive loss	(1,998)	(253)
Treasury stock, at cost, 24,900 and 24,883 shares at December 31, 2018 and December 31, 2017, respectively	(176,464)	(176,341)
Total stockholders' deficit	(108,895)	(140,633)
Total liabilities and stockholders' deficit	\$ 1,548,261	\$ 1,537,074

See notes to consolidated financial statements.

EVERI HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities			
Net income (loss)	\$ 12,356	\$ (51,903)	\$ (249,479)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation	61,225	47,282	49,995
Amortization	65,245	69,505	94,638
Amortization of financing costs and discounts	4,877	8,706	6,695
Loss on sale or disposal of assets	869	2,513	2,563
Accretion of contract rights	8,421	7,819	8,692
Provision for bad debts	11,459	9,737	9,908
Deferred income taxes	(10,343)	(20,015)	29,940
Write-down of assets	2,575	—	4,289
Reserve for obsolescence	1,919	397	3,581
Goodwill impairment	—	—	146,299
Loss on extinguishment of debt	166	51,750	—
Stock-based compensation	7,251	6,411	6,735
Changes in operating assets and liabilities:			
Settlement receivables	143,705	(98,390)	(83,998)
Trade and other receivables	(29,320)	(884)	(8,207)
Inventory	(3,848)	(5,753)	5,600
Prepaid and other assets	1,672	(1,105)	4,668
Settlement liabilities	17,159	78,465	99,245
Accounts payable and accrued expenses	(1,102)	(8,276)	735
Net cash provided by operating activities	294,286	96,259	131,899
Cash flows from investing activities			
Capital expenditures	(103,031)	(96,490)	(80,741)
Acquisitions, net of cash acquired	—	—	(694)
Proceeds from sale of fixed assets	237	10	4,599
Placement fee agreements	(20,556)	(13,300)	(11,312)
Net cash used in investing activities	(123,350)	(109,780)	(88,148)
Cash flows from financing activities			
Proceeds from new credit facility	—	820,000	—
Proceeds from unsecured notes	—	375,000	—
Repayments of prior credit facility	—	(465,600)	(24,400)
Repayments of secured notes	—	(335,000)	—
Repayments of unsecured notes	—	(350,000)	—
Repayments of new credit facility	(8,200)	(4,100)	—
Debt issuance costs and discounts	(1,276)	(28,702)	(480)
Proceeds from exercise of stock options	9,610	10,906	—
Purchase of treasury stock	(123)	(110)	(42)
Net cash provided by (used in) financing activities	11	22,394	(24,922)
Effect of exchange rates on cash	(1,370)	1,292	(1,714)
Cash, cash equivalents and restricted cash			
Net increase for the period	169,577	10,165	17,115
Balance, beginning of the period	129,604	119,439	102,324
Balance, end of the period	\$ 299,181	\$ 129,604	\$ 119,439

See notes to consolidated financial statements.

	Year Ended December 31,		
	2018	2017	2016
Supplemental cash disclosures			
Cash paid for interest	\$ 81,609	\$ 89,008	\$ 93,420
Cash paid for income tax	406	1,009	1,703
Cash refunded for income tax	4	829	171
Supplemental non-cash disclosures			
Accrued and unpaid capital expenditures	\$ 3,657	\$ 1,386	\$ 2,104
Accrued and unpaid placement fees added during the year	—	39,074	—
Accrued and unpaid contingent liability for acquisitions	(550)	—	(3,169)
Transfer of leased gaming equipment to inventory	10,028	7,820	9,042

EVERI HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Common Stock— Series A		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity (Deficit)
	Number of Shares	Amount					
Balance, January 1, 2016	90,877	\$ 91	\$ 258,020	\$ 55,180	\$ 318	\$ (176,189)	\$ 137,420
Net loss	—	—	—	(249,479)	—	—	(249,479)
Foreign currency translation	—	—	—	—	(2,427)	—	(2,427)
Stock-based compensation expense	—	—	6,735	—	—	—	6,735
Restricted share vesting withholdings	—	—	—	—	—	(42)	(42)
Restricted shares	75	—	—	—	—	—	—
Balance, December 31, 2016	90,952	\$ 91	\$ 264,755	\$ (194,299)	\$ (2,109)	\$ (176,231)	\$ (107,793)
Net loss	—	—	—	(51,903)	—	—	(51,903)
Foreign currency translation	—	—	—	—	1,856	—	1,856
Stock-based compensation expense	—	—	6,411	—	—	—	6,411
Exercise of options	2,037	2	10,904	—	—	—	10,906
Restricted share vesting withholdings	—	—	—	—	—	(110)	(110)
Restricted shares	131	—	—	—	—	—	—
Balance, December 31, 2017	93,120	\$ 93	\$ 282,070	\$ (246,202)	\$ (253)	\$ (176,341)	\$ (140,633)
Net income	—	—	—	12,356	—	—	12,356
Cumulative adjustment related to adoption of ASC 606	—	—	—	4,389	—	—	4,389
Foreign currency translation	—	—	—	—	(1,745)	—	(1,745)
Stock-based compensation expense	—	—	7,251	—	—	—	7,251
Exercise of options	1,980	2	9,608	—	—	—	9,610
Restricted share vesting withholdings	—	—	—	—	—	(123)	(123)
Balance, December 31, 2018	95,100	\$ 95	\$ 298,929	\$ (229,457)	\$ (1,998)	\$ (176,464)	\$ (108,895)

See notes to consolidated financial statements.

EVERI HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In this filing, we refer to: (i) our audited consolidated financial statements and notes thereto as our “Financial Statements;” (ii) our audited Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) as our “Statements of Income (Loss);” and (iii) our audited Consolidated Balance Sheets as our “Balance Sheets.”

1. BUSINESS

Everi Holdings Inc. (“Everi Holdings,” “Holdings,” or “Everi”) is a holding company, the assets of which are the issued and outstanding shares of capital stock of each of Everi Games Holding Inc. (“Everi Games Holding”), which owns all of the issued and outstanding shares of capital stock of Everi Games Inc. (“Everi Games” or “Games”), and Everi Payments Inc. (“Everi Payments”). Unless otherwise indicated, the terms the “Company,” “we,” “us,” and “our” refer to Everi Holdings together with its consolidated subsidiaries.

Everi is a leading supplier of technology solutions for the casino gaming industry. We provide casino operators with a diverse portfolio of products including innovative gaming machines that power the casino floor, and casino operational and management systems that include comprehensive end-to-end payments solutions, critical intelligence offerings, and gaming operations efficiency technologies.

Everi Holdings reports its results of operations based on two operating segments: Games and FinTech. Effective April 1, 2018, we changed the name of the operating segment previously referred to as “Payments” to “Financial Technology Solutions” (“Everi FinTech” or “FinTech”). We believe this reference more accurately reflects the focus of the business segment on delivering innovative and integrated solutions to enhance the efficiency of the casino operator, support the comprehensive regulatory and tax requirements of their gaming customers, and improve players’ gaming experience by providing easy access to their funds and payment of winnings.

Everi Games provides gaming operators products and services, including: (a) gaming machines primarily comprised of Class II and Class III slot machines placed under participation or fixed fee lease arrangements or sold to casino customers, including *TournEvent*® that allows operators to switch from in-revenue gaming to out-of-revenue tournaments; (b) system software, licenses, ancillary equipment, and maintenance; and (c) business-to-consumer and business-to-business interactive activities. In addition, Everi Games develops and manages the central determinant system for the video lottery terminals (“VLTs”) installed in the State of New York and it also provides similar technology in certain tribal jurisdictions.

Everi FinTech provides gaming operators cash access and related products and services, including: (a) access to cash at gaming facilities via Automated Teller Machine (“ATM”) cash withdrawals, credit card cash access transactions, point of sale (“POS”) debit card cash access transactions, and check verification and warranty services; (b) equipment that provides cash access and efficiency-related services; (c) products and services that improve credit decision making, automate cashier operations, and enhance patron marketing activities for gaming establishments; (d) compliance, audit, and data solutions; and (e) online payment processing solutions for gaming operators in states that offer intrastate, Internet-based gaming, and lottery activities.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All intercompany transactions and balances have been eliminated in consolidation.

Business Combinations

We apply the provisions of the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (“ASC”) 805, “Business Combinations,” in the accounting for acquisitions. It requires us to recognize separately from goodwill the assets acquired and the liabilities assumed, at their acquisition date fair values. 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 preliminary and typically include the calculation of an appropriate discount rate and projection of the cash flows associated with each acquired asset over its estimated useful life. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. In addition, deferred tax assets, deferred tax liabilities, uncertain tax positions, and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly based upon facts and circumstances that existed as of the acquisition date and any adjustments to its preliminary estimates are recorded to goodwill, in the period of

identification, if identified within the measurement period. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Statements of Income (Loss).

Cash and Cash Equivalents

Cash and cash equivalents include cash and balances on deposit in banks and financial institutions. We consider highly liquid investments with maturities of three months or less at the time of purchase to be cash and cash equivalents. Such balances generally exceed the federal insurance limits, however, we periodically evaluate the creditworthiness of these institutions to minimize risk.

ATM Funding Agreements

We obtain all of the cash required to operate our ATMs through various ATM Funding Agreements. Some gaming establishments provide the cash utilized within the ATM (“Site-Funded”). The Site-Funded receivables generated for the amount of cash dispensed from transactions performed at our ATMs are owned by us and we are liable to the gaming establishment for the face amount of the cash dispensed. In our Balance Sheets, the amount of the receivable for transactions processed on these ATM transactions is included within settlement receivables and the amount due to the gaming establishment for the face amount of dispensing transactions is included within settlement liabilities.

For the non-Site-Funded locations, we enter into commercial arrangements with third party vendors to provide us the currency needed for normal operating requirements for our ATMs. For the use of these funds, we pay a cash usage fee based upon the target federal funds rate. Under these agreements, the currency supplied by the third party vendors remains the sole property of these suppliers until cash is dispensed, at which time the third party vendors obtain an interest in the corresponding settlement receivable. As the cash is an asset of these suppliers, it is therefore not reflected on our Balance Sheets. The usage fee for the cash supplied in these ATMs is included as interest expense in the Statements of Income (Loss). Our rationale to record cash usage fees as interest expense is primarily due to the similar operational characteristics to a revolving line of credit, the fact that the fees are calculated on a financial index, and the fees are paid for access to a capital resource.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts related to our trade and other receivables and notes receivable that have been deemed to have a high risk of uncollectibility or for which uncertainty exists as to whether the account balance has become uncollectible. Management reviews its accounts and notes receivable on a quarterly basis to determine if any receivables will potentially be uncollectible. Management analyzes historical collection trends and changes in our customer payment patterns, concentration, and creditworthiness when evaluating the adequacy of our allowance for doubtful accounts. Based on the information available, management believes the allowance for doubtful accounts is adequate; however, actual write-offs may exceed the recorded allowance.

Settlement Receivables and Settlement Liabilities

We provide cash settlement services to gaming establishments related to our cash access services, which involve the movement of funds between various parties involved in these types of transactions. We receive reimbursement from the patron’s credit or debit card issuing financial institution for the amount owed to the gaming establishment plus the fee charged to the patron. These activities result in amounts due to us at the end of each business day that we generally recover over the next few business days, which are classified as settlement receivables on our Balance Sheets. In addition, cash settlement services result in amounts due to gaming establishments for the cash disbursed to patrons through the issuance of a negotiable instrument or through electronic settlement for the face amount provided to patrons that we generally remit over the next few business days, which are classified as settlement liabilities on our Balance Sheets.

Warranty Receivables

If a gaming establishment chooses to have a check warranted, it sends a request to our third-party check warranty service provider, asking whether it would be willing to accept the risk of cashing the check. If the check warranty provider accepts the risk and warrants the check, the gaming establishment negotiates the patron’s check by providing cash for the face amount of the check. If the check is dishonored by the patron’s bank upon presentment, the gaming establishment invokes the warranty, and the check warranty service provider purchases the check from the gaming establishment for the full check amount and then pursues collection activities on its own. In our Central Credit Check Warranty product under our agreement with the third-party service provider, we receive all of the check warranty revenue. We are exposed to risk for the losses associated with any warranted items that cannot be collected from patrons issuing the items. Warranty receivables are defined as any amounts paid by the third-party check warranty service provider to gaming establishments to purchase dishonored checks. Additionally, we pay a fee to the third-party check warranty service provider for its services.

The warranty receivables amount is recorded in trade and other receivables, net on our Balance Sheets. On a monthly basis, the Company evaluates the collectability of the outstanding balances and establishes a reserve for the face amount of the expected losses on these receivables. The warranty expense associated with this reserve is included within cost of revenues (exclusive of depreciation and amortization) on our Statements of Income (Loss).

Inventory

Our inventory primarily consists of component parts as well as finished goods and work-in-progress. The cost of inventory includes cost of materials, labor, overhead and freight. The inventory is stated at the lower of cost or net realizable value and accounted for using the first in, first out method (“FIFO”).

Restricted Cash

Our restricted cash primarily consists of: (i) deposits held in connection with a sponsorship agreement; (ii) WAP-related restricted funds; and (iii) Internet-related cash access activities. The current portion of restricted cash, which is included in prepaid expenses and other assets, was approximately \$1.5 million, \$0.9 million, and \$0.3 million as of December 31, 2018, 2017, and 2016, respectively. The non-current portion of restricted cash, which is included in other assets, was approximately \$0.1 million as of December 31, 2018, 2017, and 2016.

Property, Equipment and Leased Assets

Property, equipment and leased assets are stated at cost, less accumulated depreciation, and are computed using the straight-line method over the lesser of the estimated life of the related assets, generally two to five years, or the related lease term. Player terminals and related components and equipment are included in our rental pool. The rental pool can be further delineated as “rental pool – deployed,” which consists of assets deployed at customer sites under participation arrangements, and “rental pool – undeployed,” which consists of assets held by us that are available for customer use. Rental pool – undeployed consists of both new units awaiting deployment to a customer site and previously deployed units currently back with us to be refurbished awaiting re-deployment. Routine maintenance of property, equipment and leased gaming equipment is expensed in the period incurred, while major component upgrades are capitalized and depreciated over the estimated remaining useful life of the component. Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains or losses on sales and retirements of property are reflected in our Statements of Income (Loss). Property, equipment and leased assets are reviewed for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. Impairment is indicated when future cash flows, on an undiscounted basis, do not exceed the carrying value of the asset.

Placement Fee and Development Agreements

We enter into placement fee and, to a certain extent, development agreements to provide financing for the expansion of existing facilities, or for new gaming facilities. Funds provided under placement fee agreements are not reimbursed, while funds provided under development agreements are reimbursed to us, in whole, or in part. In return, the facility dedicates a percentage of its floor space to placement of our player terminals, and we receive a fixed percentage of those player terminals’ hold amounts per day over the term of the agreement, which is generally from 12 to 83 months. Certain of the agreements contain player terminal performance standards that could allow the facility to reduce a portion of our guaranteed floor space. In addition, certain development agreements allow the facilities to buy out floor space after advances that are subject to repayment have been repaid. The agreements typically provide for a portion of the amounts retained by the gaming facility for their share of the operating profits of the facility to be used to repay some or all of the advances recorded as notes receivable.

Goodwill

Goodwill represents the excess of the purchase price over the identifiable tangible and intangible assets acquired plus liabilities assumed arising from business combinations. We test for impairment annually on a reporting unit basis, at the beginning of our fourth fiscal quarter, or more often under certain circumstances. The annual impairment test is completed using either: a qualitative “Step 0” assessment based on reviewing relevant events and circumstances; or a quantitative “Step 1” assessment, which determines the fair value of the reporting unit, using both an income approach that discounts future cash flows based on the estimated future results of our reporting units and a market approach that compares market multiples of comparable companies to determine whether or not any impairment exists. If the fair value of a reporting unit is less than its carrying amount, we will use the “Step 1” assessment to determine the impairment, in accordance with ASC 350, Intangibles - Goodwill and Other.

Our reporting units are identified as operating segments or one level below. Reporting units must: (a) engage in business activities from which they earn revenues and incur expenses; (b) have operating results that are regularly reviewed by our segment management to ascertain the resources to be allocated to the segment and assess its performance; and (c) have discrete financial

information available. As of December 31, 2018, our reporting units included: Games, Cash Access Services, Kiosk Sales and Service, Central Credit Services, and Compliance Sales and Services.

Other Intangible Assets

Other intangible assets are stated at cost, less accumulated amortization, and are computed primarily using the straight-line method. Other intangible assets consist primarily of: (i) customer contracts (rights to provide Games and FinTech services to gaming establishment customers), developed technology, trade names and trademarks, and contract rights acquired through business combinations; and (ii) capitalized software development costs. Customer contracts require us to make renewal assumptions, which impact the estimated useful lives of such assets. Capitalized software development costs require us to make certain judgments as to the stages of development and costs eligible for capitalization. Capitalized software costs placed in service are amortized over their useful lives, generally not to exceed five years. We review intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or circumstances include, but are not limited to, a significant decrease in the fair value of the underlying business or market price of the asset, a significant adverse change in legal factors or business climate that could affect the value of an asset, or a current period operating or cash flow loss combined with a history of operating or cash flow losses. We group intangible assets for impairment analysis at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of definite lived intangible assets is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset, on an undiscounted basis and without interest or taxes. Any impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Debt Issuance Costs

Debt issuance costs incurred in connection with long-term borrowings are capitalized and amortized to interest expense based upon the related debt agreements using the straight-line method, which approximates the effective interest method. Debt issuance costs related to line-of-credit arrangements are included in other assets, non-current, on our Balance Sheets. All other debt issuance costs are included as contra-liabilities in long-term debt.

Original Issue Discounts

Original issue discounts incurred in connection with long-term borrowings are capitalized and amortized to interest expense based upon the related debt agreements using the straight-line method, which approximates the effective interest method. These amounts are recorded as contra-liabilities and included in long-term debt on our Balance Sheets.

Revenue Recognition

Overview

We evaluate the recognition of revenue based on the criteria set forth in ASC 606 and ASC 840, as appropriate. We recognize revenue upon transferring control of goods or services to our customers in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We enter into contracts with customers that include various performance obligations consisting of goods, services, or combinations of goods and services. Timing of the transfer of control varies based on the nature of the contract. We recognize revenue net of any sales and other taxes collected from customers, which are subsequently remitted to governmental authorities and are not included in revenues or operating expenses. We measure revenue based on the consideration specified in a contract with a customer and adjusted, as necessary.

We evaluate the composition of our revenues to ensure compliance with SEC Regulation S-X Section 210.5-3, which requires us to separately present certain categories of revenues that exceed the quantitative threshold on our Statements of Income (Loss).

Significant Judgments

We apply judgments or estimates to determine the performance obligations and the Stand-Alone Selling Price (“SSP”) of each identified performance obligation. The establishment of SSP requires judgment as to whether there is a sufficient quantity of items sold or renewed on a stand-alone basis and those prices demonstrate an appropriate level of concentration to conclude that a SSP exists. The SSP of our goods and services are generally determined based on observable prices, an adjusted market assessment approach or an expected cost plus margin approach. We utilize a residual approach only when the SSP for performance obligations with observable prices have been established and the remaining performance obligation in the contract with a customer does not have an observable price as it is uncertain or highly variable and, therefore, is not discernible.

Collectability

To assess collectability, we determine whether it is probable that we will collect substantially all of the consideration to which we are entitled in exchange for the goods and services transferred to the customer in accordance with the terms and conditions of the contract. In connection with these procedures, we evaluate the customer using internal and external information available, including, but not limited to, research and analysis of the credit history with the customer. Based on the nature of our transactions and historical trends, we determine whether our customers have the ability and intention to pay the amounts of consideration when they become due to identify potentially significant credit risk exposure.

Contract Combinations - Multiple Promised Goods and Services

Our contracts may include various performance obligations for promises to transfer multiple goods and services to a customer, especially since our Games and FinTech businesses may enter into multiple agreements with the same customer that meet the criteria to be combined for accounting purposes under ASC 606. When this occurs, a SSP will be determined for each performance obligation in the combined arrangement and the consideration allocated between the respective performance obligations. We use our judgment to analyze the nature of the promises made and determine whether each is distinct or should be combined with other promises in the contract based on the level of integration and interdependency between the individual deliverables.

Disaggregation of Revenues

We disaggregate revenues based on the nature and timing of the cash flows generated by such revenues as presented in “Note 18 - Segment Information.”

Outbound Freight Costs

Upon transferring control of a good to a customer, the shipping and handling costs in connection with sale transactions are accounted for as fulfillment costs and included in cost of revenues.

Costs to Acquire a Contract with a Customer

We typically incur incremental costs to acquire customer contracts in the form of sales commission expenses. We evaluate those acquisition costs for groups of contracts with similar characteristics, based on the nature of the transactions. The incremental costs to acquire customer contracts identified would be amortized within one year and, as a result, we elected to utilize the practical expedient set forth in ASC 340-40, *Contract Costs - Incremental Costs of Obtaining a Contract* to expense these amounts as incurred.

Contract Balances

Since our contracts may include multiple performance obligations, there is often a timing difference between the cash collections and the satisfaction of such performance obligations and revenue recognition. Such arrangements are evaluated to determine whether contract assets and liabilities exist. We generally record contract assets when the timing of cash collections differs from when revenue is recognized due to contracts containing specific performance obligations that are required to be met prior to a customer being billed. We generally record contract liabilities when cash is collected in advance of us satisfying performance obligations, including those that are satisfied over a period of time.

The following table summarizes our contract assets and contract liabilities arising from contracts with customers:

	For the Year Ended December 31, 2018	
Contract assets⁽¹⁾		
Balance at January 1	\$	8,433
Balance at December 31		11,310
Increase (decrease)		2,877
Contract liabilities⁽²⁾		
Balance at January 1		12,397
Balance at December 31		15,470
Increase (decrease)	\$	3,073

(1) Current portion of contract assets is included within Trade and other receivables, net and non-current portion is included within Other receivables in our Balance Sheets.

(2) Current portion of contract liabilities is included within Accounts payable and accrued expenses and non-current portion is included within Other accrued expenses and liabilities in our Balance Sheets.

We recognized approximately \$11.4 million in revenue that was included in the beginning contract liability balance during 2018.

Games Revenues

Our Games products and services include commercial products, such as Native American Class II products and other bingo products, Class III products, video lottery terminals, accounting and central determinant systems, and other back office systems. We conduct our Games segment business based on results generated from the following major revenue streams: (i) Gaming Operations; (ii) Gaming Equipment and Systems; and (iii) Gaming Other.

Gaming Operations

Games revenues are primarily generated by our gaming operations under placement, participation, and development arrangements, in which we provide our customers with player terminals, including *TournEvent*® that allows operators to switch from in-revenue gaming to out-of-revenue tournaments, player terminal-content licenses, local-area progressive machines, and back-office equipment, collectively referred to herein as leased gaming equipment. We evaluate the recognition of lease revenues based on criteria set forth in ASC 840. Generally, under these arrangements, we retain ownership of the machines installed at customer facilities. We receive recurring revenue based on a percentage of the net win per day generated by the leased gaming equipment or a fixed daily fee. Revenues from lease participation or daily fee arrangements are considered both realizable and earned at the end of each gaming day. Gaming operations revenues generated by leased gaming equipment deployed at sites under development or placement fee agreements give rise to contract rights, which are amounts recorded to intangible assets for dedicated floor space resulting from such agreements. The gaming operations revenues generated by these arrangements are reduced by the accretion of contract rights, which represents the related amortization of the contract rights recorded in connection with those agreements. Gaming operations lease revenues accounted for under ASC 840 are generally short-term in nature with payment terms ranging from 30 to 90 days. We recognized \$136.6 million, \$126.1 million, and \$134.0 million in lease revenues for the years ended December 31, 2018, 2017, and 2016, respectively.

Gaming operations revenues include amounts generated by Wide Area Progressive (“WAP”) systems, which are recognized under ASC 606. WAP consists of linked slot machines located in multiple casino properties that are connected to a central system. WAP-based gaming machines have a progressive jackpot we administer that increases with every wager until a player wins the top award combination. Casino operators pay us a percentage of the coin-in (the total amount wagered), a percentage of net win, or a combination of both for services related to the design, assembly, installation, operation, maintenance, administration, and marketing of the WAP systems. The gaming operations revenues with respect to WAP machines comprise a separate performance obligation and are recognized over time based on the amount expected to be received with any variability being resolved in the reporting period. These arrangements are generally short-term in nature with a majority of invoices payable within 30 to 45 days. Such revenues are presented in the Statements of Income (Loss) net of the jackpot expense, which is comprised of incremental amounts funded by a portion of the coin-in from players. At the time a jackpot is won by a player, an additional jackpot expense is recorded

with respect to the base seed amount required to fund the minimum level required by the respective WAP arrangement with the casino operator.

Gaming operations revenues also include amounts received in connection with our relationship with the New York State Gaming Commission to provide an accounting and central determinant system for the VLTs in operation at licensed State of New York gaming facilities. Pursuant to our agreement with the New York State Gaming Commission, we receive a portion of the network-wide net win (generally, cash-in less prizes paid) per day in exchange for provision and maintenance of the central determinant system and records it in accordance with ASC 606. We also provide central determinant system technology to Native American tribes in other licensed jurisdictions for which we receive a portion of the revenue generated from the VLTs connected to the system. These arrangements are generally short-term in nature with payments due monthly.

Gaming operations revenues also include amounts generated by our Interactive offering comprised of business-to-consumer (“B2C”) and business-to-business (“B2B”) activities. B2C relates to games offered directly to consumers to play with virtual currency which can be purchased through our social, mobile application. Control transfers and we recognize revenues in accordance with ASC 606 from player purchases of virtual currency as it is consumed for game play, which is based on a historical data analysis. B2B relates to games offered to the online business partners, or social casinos, who then offer the games to consumers. Our B2B arrangements primarily provide access to our game content and revenue is recognized in accordance with ASC 606 as the control transfers upon the online business partners’ daily access to such content based on either a flat fee or revenue share arrangements with the social casinos.

Gaming Equipment and Systems

Gaming equipment and systems revenues are accounted for under ASC 606 and are derived from the sale of some combination of: (a) gaming equipment and player terminals, including *TournEvent*® that allows operators to switch from in-revenue gaming to out-of-revenue tournaments; (b) game content; (c) license fees; (d) ancillary equipment; and (e) maintenance. Such arrangements are predominately short-term in nature with payment terms ranging from 30 to 180 days with certain agreements providing for extended payment terms, ranging from 12 to 24 months. Our contracts with customers do not contain any financing components that have been determined to be significant to the contract. Performance obligations for gaming equipment and systems arrangements include gaming equipment, player terminals, content, system software, license fees, ancillary equipment, maintenance, or various combinations thereof. Gaming equipment and systems are recognized at a point in time when control of the promised goods and services transfers to the customer generally upon shipment or delivery pursuant to the terms of the contract. The performance obligations are generally satisfied at the same time or within a short period of time.

Gaming Other

Gaming other revenues consist of amounts generated by our *TournEvent of Champions*® national tournament that allows winners of local and regional tournaments throughout the year to participate in a national tournament that results in the determination of a final champion. Such revenues are accounted for under ASC 606. As the customer simultaneously receives and consumes the benefits of our performance as it occurs, revenues are recognized as earned over a period of time using an output method depicting the transfer of control to the customer. These arrangements are generally short-term in nature with payment terms ranging from 30 to 90 days.

FinTech Revenues

Cash Access Services

Cash access services revenues are accounted for under ASC 606 and are generally comprised of the following distinct performance obligations: cash advance, ATM, and check services. We do not control the cash advance and ATM services provided to a customer and, therefore, we are acting as an agent whose performance obligation is to arrange for the provision of these services. Our cash access services involve the movement of funds between the various parties associated with cash access transactions and give rise to settlement receivables and settlement liabilities, both of which are settled in days following the transaction.

Cash advance revenues are comprised of transaction fees assessed to gaming patrons in connection with credit card cash access and POS debit card cash access transactions. Such fees are primarily based on a combination of a fixed amount plus a percentage of the face amount of the credit card cash access or POS debit card cash access transaction amount. In connection with these types of transactions, we report certain direct costs incurred as reductions to revenues on a net basis, which generally include: (i) commission expenses payable to casino operators; (ii) interchange fees payable to the network associations; and (iii) processing and related costs payable to other third party partners.

ATM revenues are primarily comprised of transaction fees in the form of cardholder surcharges assessed to gaming patrons in connection with ATM cash withdrawals at the time the transactions are authorized and reverse interchange fees paid to us by the

patrons' issuing banks. The cardholder surcharges assessed to gaming patrons in connection with ATM cash withdrawals are currently a fixed dollar amount and not a percentage of the transaction amount. In connection with these types of transactions, we report certain direct costs incurred as reductions to revenues on a net basis, which generally include: (i) commission expenses payable to casino operators; (ii) interchange fees payable to the network associations; and (iii) processing and related costs payable to other third party partners.

Check services revenues are principally comprised of check warranty revenues and are generally based upon a percentage of the face amount of checks warranted. These fees are paid to us by gaming establishments.

For cash access services arrangements, since the customer simultaneously receives and consumes the benefits as the performance obligations occur, we recognize revenues as earned over a period of time using an output method depicting the transfer of control to the customer based on variable consideration, such as volume of transactions processed with variability generally resolved in the reporting period.

Equipment

Equipment revenues are derived from the sale of equipment and are accounted for under ASC 606. Revenues are recognized at a point in time when control of the promised goods and services transfers to the customer generally upon shipment or delivery pursuant to the terms of the contract. These sales contracts are generally short-term in nature with payment terms ranging from 30 to 90 days.

Information Services and Other

Information services and other revenues are accounted for under ASC 606 and include amounts derived from the sale of: (i) software licenses, software subscriptions, professional services and certain other ancillary fees; (ii) service related fees associated with the sale, installation, and maintenance of equipment directly to our customers under contracts, which are generally short-term in nature with payment terms ranging from 30 to 90 days, secured by the related equipment; (iii) credit worthiness-related software subscription services that are based upon either a flat monthly unlimited usage fee or a variable fee structure driven by the volume of patron credit histories generated; and (iv) ancillary marketing, database, and Internet-based gaming related activities.

Our software represents a functional right-to-use license and the revenues are recognized as earned at a point in time. Subscription services are recognized over a period of time using an input method based on time elapsed as we transfer the control ratably by providing a stand-ready service. Professional and other services revenues are recognized over a period of time using an input method based on time elapsed as services are provided, thereby reflecting the transfer of control to the customer.

Cost of Revenues (Exclusive of Depreciation and Amortization)

The cost of revenues (exclusive of depreciation and amortization) represents the direct costs required to perform revenue generating transactions. The costs included within cost of revenues (exclusive of depreciation and amortization) are inventory and related costs associated with the sale of our fully integrated kiosks, electronic gaming machines and system sale, check cashing warranties, field service, and network operations personnel.

Advertising, Marketing, and Promotional Costs

We expense advertising, marketing, and promotional costs as incurred. Total advertising, marketing, and promotional costs, included in operating expenses in the Statements of Income (Loss), were \$3.4 million, \$1.1 million, and \$1.2 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Research and Development Costs

We conduct research and development activities primarily to develop gaming systems, game engines, casino data management systems, casino central monitoring systems, video lottery outcome determination systems, gaming platforms and gaming content, and to enhance our existing product lines. We believe our ability to deliver differentiated, appealing products and services to the marketplace is based on our research and development investments, and we expect to continue to make such investments in the future. Research and development costs consist primarily of salaries and benefits, consulting fees, and game lab testing fees. Once the technological feasibility of a project has been established, it is capitalized until it becomes available for general release.

Research and development costs were \$20.5 million, \$18.9 million, and \$19.4 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Income Taxes

We are subject to income taxes in the United States as well as various states and foreign jurisdictions in which we operate. In accordance with accounting guidance, our income taxes include amounts from domestic and international jurisdictions. Due to the 2017 Tax Act, there is no U.S. federal tax on cash repatriation from foreign subsidiaries; however, we could be subject to foreign withholding tax and U.S. state income taxes. The 2017 Tax Act also subjects our foreign subsidiary earnings to the Global Intangible Low-Taxed Income (“GILTI”) tax provisions. Some items of income and expense are not reported in tax returns and our Financial Statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes.

Our deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in our Financial Statements or income tax returns. Deferred tax assets and liabilities are determined based upon differences between financial statement carrying amounts of existing assets and their respective tax bases using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The effect on the income tax provision or benefit and deferred tax assets and liabilities for a change in rates is recognized in the Statements of Income (Loss) in the period that includes the enactment date.

When measuring deferred tax assets, certain estimates and assumptions are required to assess whether a valuation allowance should be established by evaluating both positive and negative factors in accordance with accounting guidance. This evaluation requires that we exercise judgment in determining the relative significance of each factor. The assessment of the valuation allowance involves significant estimates regarding future taxable income and when it is recognized, the amount and timing of taxable differences, the reversal of temporary differences and the implementation of tax-planning strategies. A valuation allowance is established based on the weight of available evidence, including both positive and negative indicators, if it is more likely than not that a portion, or all, of the deferred tax assets will not be realized. Greater weight is given to evidence that is objectively verifiable, most notably historical results. If we report a cumulative loss from continuing operations before income taxes for a reasonable period of time, this form of negative evidence is difficult to overcome. Therefore, we include certain aspects of our historical results in our forecasts of future taxable income, as we do not have the ability to solely rely on forecasted improvements in earnings to recover deferred tax assets. When we report a cumulative loss position, to the extent our results of operations improve, such that we have the ability to overcome the more likely than not accounting standard, we may be able to reverse the valuation allowance in the applicable period of determination. In addition, we rely on deferred tax liabilities in our assessment of the realizability of deferred tax assets if the temporary timing difference is anticipated to reverse in the same period and jurisdiction and the deferred tax liabilities are of the same character as the temporary differences giving rise to the deferred tax assets.

We also follow accounting guidance to account for uncertainty in income taxes as recognized in our Financial Statements. The accounting standard creates a single model to address uncertainty in income tax positions and prescribes the minimum recognition threshold a tax position is required to meet before being recognized in our Financial Statements. The standard also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Under this standard, we may recognize tax benefits 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 is the largest benefit that we believe has greater than a 50% likelihood of being realized upon settlement. Actual income taxes paid may vary from estimates depending upon changes in income tax laws, actual results of operations, and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed.

Employee Benefits Plan

The Company provides a 401(k) Plan that allows employees to defer up to the lesser of the Internal Revenue Code prescribed maximum amount or 100% of their income on a pre-tax basis through contributions to the plan. As a benefit to employees, the Company matches a percentage of these employee contributions (as defined in the plan document). Expenses related to the matching portion of the contributions to the 401(k) Plan were \$2.2 million, \$2.3 million, and \$1.9 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Fair Values of Financial Instruments

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time, based upon relevant market information about the financial instrument.

The carrying amount of cash and cash equivalents, settlement receivables, short-term trade and other receivables, settlement liabilities, accounts payable and accrued expenses approximate fair value due to the short-term maturities of these instruments. The fair value of the long-term trade and loans receivable is estimated by discounting expected future cash flows using current

interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. As of December 31, 2018 and December 31, 2017, the fair value of notes receivable, net, approximated the carrying value due to contractual terms of trade and loans receivable generally being under 24 months. The fair value of our borrowings is estimated based on various inputs to determine a market price, such as: market demand and supply, size of tranche, maturity, and similar instruments trading in more active markets. The estimated fair value and outstanding balances of our borrowings are as follows (in thousands):

	Level of Hierarchy	Fair Value	Outstanding Balance
December 31, 2018			
Term loan	2	\$ 784,479	\$ 807,700
Senior unsecured notes	1	\$ 354,863	\$ 375,000
December 31, 2017			
Term loan	2	\$ 826,099	\$ 815,900
Senior unsecured notes	1	\$ 372,656	\$ 375,000

The term loan facility was reported at fair value using a Level 2 input as there were quoted prices in markets that were not considered active as of December 31, 2018 and December 31, 2017. The senior unsecured notes were reported at fair value using a Level 1 input as there were quoted prices in markets that were considered active as of December 31, 2018 and December 31, 2017.

Foreign Currency Translation

Foreign currency denominated assets and liabilities for those foreign entities for which the local currency is the functional currency are translated into U.S. dollars based on exchange rates prevailing at the end of each year. Revenues and expenses are translated at average exchange rates during the year. The effects of foreign exchange gains and losses arising from these translations are included as a component of other comprehensive income on the Statements of Income (Loss). Translation adjustments on intercompany balances of a long-term investment nature are recorded as a component of accumulated other comprehensive loss on our Balance Sheets.

Use of Estimates

We have made estimates and judgments affecting the amounts reported in these financial statements and the accompanying notes in conformity with accounting principles generally accepted in the United States. The actual results may differ from these estimates.

Earnings Applicable to Common Stock

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the effect of potential common stock resulting from assumed stock option exercises and vesting of restricted stock unless it is anti-dilutive. To the extent we report a net loss from continuing operations in a particular period, no potential dilution from the application of the treasury stock method would be applicable in accordance with ASC 260, Earnings per Share.

Share-Based Compensation

Share-based compensation is considered an equity award and results in a cost that is measured at fair value on the grant date of an award.

Our time-based stock options were measured at fair value on the grant date using the Black Scholes model. Our restricted stock awards and restricted stock units, including the restricted stock units bound by certain performance-based metrics issued in 2018, were measured at fair value based on the stock price on the grant date. The compensation expense is recognized on a straight-line basis over the vesting period of the awards.

Our market-based options granted in 2017 and 2016 under our 2014 Equity Incentive Plan (the “2014 Plan”) and 2012 Equity Incentive Plan (as amended, the “2012 Plan”) vest at a rate of 25% per year on each of the first four anniversaries of the grant date, provided that as of the vesting date for each vesting tranche, the closing price of the Company’s shares on the New York Stock Exchange is at least a specified price hurdle, defined as a 25% and 50% premium for 2017 and 2016, respectively, to the closing stock price on the grant date. If the price hurdle is not met as of the vesting date for a vesting tranche, then the vested tranche shall vest and become vested shares on the last day of a period of 30 consecutive trading days during which the closing price is at least the price hurdle.

The market-based options were measured at fair value on the grant date using a lattice-based valuation model based on the median time horizon from the date of grant for these options to the vesting date for those paths that achieved the target threshold(s). The compensation expense is recognized on a straight-line basis over the median vesting periods calculated under such valuation model.

Forfeitures are estimated at the grant date for our time-based, market-based and performance-based awards, with such estimates updated periodically; and with actual forfeitures recognized currently to the extent they differ from the estimates.

Unless otherwise provided by the administrator of our equity incentive plans, stock options granted under our plans generally expire ten years from the date of grant. The exercise price of stock options is generally the closing market price of our common stock on the date of the stock option grant.

Acquisition-Related Costs

We recognize a liability for acquisition-related costs when the expense is incurred. Acquisition-related costs include, but are not limited to: financial advisory, legal and debt fees; accounting, consulting, and professional fees associated with due diligence, valuation, and integration; severance; and other related costs and adjustments.

Reclassification of Prior Year Balances

Reclassifications were made to the prior-period Financial Statements to conform to the current period presentation, except for the adoption impact of the application of ASC 606 utilizing the modified retrospective transition method.

Recent Accounting Guidance

Recently Adopted Accounting Guidance

In March 2018, the FASB issued ASU No. 2018-05, which provides guidance on accounting for the tax effects of the 2017 Tax Act (pursuant to SEC Staff Accounting Bulletin No. 118). The new standard is effective March 13, 2018. We have adopted this guidance in the quarter ended March 31, 2018. In accordance with this guidance, some of the income tax effects recorded in 2017 were provisional and insignificant adjustments were made during 2018. As of December 22, 2018, we completed our analysis and our updated assessment is that the 2017 Tax Act has no further impact on our previously reported income tax provisions or our deferred tax assets or liabilities; therefore, these amounts are no longer considered provisional in nature.

In May 2014, the FASB issued ASU No. 2014-09, which creates ASC 606 and supersedes ASC Topic 605, "Revenue Recognition." The guidance replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires the entity to disclose further quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers. The guidance in ASU 2014-9 was further updated by ASU 2016-08 in March 2016, which provided clarification on the implementation of the principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, which provides clarification on the implementation of performance obligations and licensing in ASU 2014-9. In May 2016, the FASB issued ASU 2016-11, which amended guidance provided in two SEC Staff Announcements at the March 3, 2016 Emerging Issues Task Force meeting over various topics relating to ASU 606. In May 2016, the FASB issued ASU 2016-12, which clarified various topics in ASC 606. In December 2016, the FASB issued ASU 2016-20, which clarified additional topics in ASC 606. This guidance may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. We adopted this guidance effective January 1, 2018 and have provided additional information with respect to the new revenue recognition topic elsewhere in this Note 2 disclosure and also in "Note 3 — Adoption of ASC 606, Revenue from Contracts with Customers."

In May 2017, the FASB issued ASU No. 2017-09 to clarify which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. An entity is required to account for the effects of a modification unless all of the following conditions are met: (i) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or value using an alternative measurement method) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; (ii) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before

the original award is modified. We adopted this guidance in the quarter ended March 31, 2018. The adoption of this ASU did not have a material impact on our Financial Statements.

In January 2017, the FASB issued ASU No. 2017-01, which clarifies the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This guidance is to be applied using a prospective approach as of the beginning of the first period of adoption. We adopted this guidance in the quarter ended March 31, 2018. The adoption of this ASU did not have a material impact on our Financial Statements.

In October 2016, the FASB issued ASU No. 2016-18, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. We adopted this guidance in the quarter ended March 31, 2018 using a retrospective approach to each period presented. The adoption of this ASU did not have a material impact on our Financial Statements.

In October 2016, the FASB issued ASU No. 2016-16, which provides updated guidance on the recognition of the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs, and this eliminates the exception for an intra-entity transfer of such assets. This guidance will be applied using a modified retrospective approach through a cumulative-effective adjustment directly to retained earnings as of the beginning of the period of adoption. We adopted this guidance in the quarter ended March 31, 2018. The adoption of this ASU did not have a material impact on our Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, which provides updated guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is to be applied using a retrospective approach. If it is impracticable to apply the amendments retrospectively for some of the issues within this ASU, the amendments for those issues would be applied prospectively as of the earliest date practicable. We adopted this guidance in the quarter ended March 31, 2018. The adoption of this ASU did not have a material impact on our Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, which, among other things, requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. We adopted this guidance in the quarter ended March 31, 2018. The adoption of this ASU did not have a material impact on our Financial Statements.

Recent Accounting Guidance Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. We are currently evaluating the impact of adopting this guidance on our Financial Statements; however, we do not expect the impact to be material.

In June 2018, the FASB issued ASU No. 2018-07, which expands the scope of Topic 718, Compensation-Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of this ASU to have a material impact on our Financial Statements.

In February 2018, the FASB issued ASU No. 2018-02, which provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We do not expect the adoption of this ASU to have a material impact on our Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, which provides updated guidance on how an entity should measure credit losses on financial instruments. The new guidance replaces the current incurred loss measurement methodology with a lifetime expected loss measurement methodology, and is effective for fiscal years beginning after December 15, 2019, including interim periods

within those fiscal years. This guidance will be applied using a modified retrospective approach for the cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective and using a prospective approach for debt securities for which any other-than-temporary impairment had been recognized before the effective date. In November 2018, the FASB issued ASU No. 2018-19 to mitigate transition complexity by requiring entities other than public business entities to implement ASU No. 2016-13 for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. This aligns the implementation date for their annual financial statements with the implementation date for their interim financial statements. The guidance also clarified that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the leases standard. We are currently evaluating the impact of adopting this guidance on our Financial Statements; however, we do not expect the impact to be material.

In February 2016, the FASB issued ASU No. 2016-02, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions. The guidance establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. We made an accounting policy election whereby leases that are 12 months or less that do not include an option to purchase the underlying assets will be accounted for similarly to our current operating leases; therefore, these arrangements will not be recorded on the balance sheet. For lessees, leases will be classified as either financing or operating with classification affecting the pattern of expense recognition in the income statement. For lessors, leases will be classified as operating, sales-type or direct financing with classification affecting the pattern of revenue and profit recognition in the income statement. In July 2018, the FASB issued ASU No. 2018-10 - Codification Improvements to Topic 842, Leases and ASU No. 2018-11 - Leases (Topic 842): Targeted Improvements. ASU No. 2018-10 affects narrow aspects of the guidance previously issued and ASU No. 2018-11 provides a practical expedient for lessors on separating components of a contract and also includes an additional optional transition relief methodology for adopting the new standard. In December 2018, the FASB issued ASU No. 2018-20 - Leases (Topic 842): Narrow-Scope Improvements for Lessors, which addresses the following issues facing lessors when applying the standard: sales taxes and other similar taxes collected from lessees, certain lessor costs paid directly by lessees, and recognition of variable payments for contracts with lease and non-lease components. The guidance requires an entity to adopt the new standard, as amended, under a modified retrospective application. With the optional transition relief methodology available, entities have an opportunity to adopt the new lease standard prospectively at the beginning of the period of adoption through a cumulative-effect adjustment, with certain practical expedients available.

On January 1, 2019, the Company adopted the new leasing standard promulgated by the FASB using the adoption date method. While we are finalizing the adoption procedures, we expect that the standard will have a material impact on our Balance Sheets, however, we do not expect that the standard will have a material impact on our Statements of Income (Loss). Upon adoption, we will record a ROU asset and lease liability, representing our obligation to make lease payments for operating leases, measured on a discounted basis. We expect the ROU assets and lease liabilities of operating leases recorded to be within the range of approximately 1%-2% of total assets. We elected the practical expedients offered in the aforementioned guidance, including the transition practical expedient that states that the Company need not reassess: (a) whether expired or existing contracts contain leases; (b) the lease classification of expired or existing leases; or (c) initial direct costs for any existing leases. Other expedients adopted include practical expedient that allows a Company, as an accounting policy election by class of underlying assets, choose not to separate non-lease components from lease components; and a short-term lease recognition exemption to not record short-term leases with an initial term of 12 months or less on the balance sheet.

As we are finalizing the adoption procedures, we expect the following impact to our financial statements as summarized within the table below:

Lessor Perspective	Expected Impact Upon Adoption
Games and FinTech Segments	The adoption of ASC 842 will not have a material impact on the Company from the lessor perspective as our lessor accounting for leases will be consistent with current practices.
Lessee Perspective	Expected Impact Upon Adoption
Games and FinTech Segments	We will recognize operating lease ROU assets and liabilities primarily associated with real estate leases on our Balance Sheets for lease contracts with terms that are longer than 12 months with no material impact to the Statements of Income (Loss). The operating lease ROU assets and liabilities are expected to be recognized at the commencement date based on the present value of lease payments over the lease terms.

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

3. ADOPTION OF ASC 606, “REVENUE FROM CONTRACTS WITH CUSTOMERS”

Change in accounting policies

On January 1, 2018, we adopted ASC 606 using the modified retrospective method, which required us to evaluate whether any cumulative adjustment was required to be recorded to retained earnings (accumulated deficit) as a result of applying the provisions set forth under ASC 606 for any existing arrangements not yet completed as of the adoption date of January 1, 2018. We determined that there was an immaterial cumulative adjustment in the amount of approximately \$4.4 million, which we recorded to accumulated deficit as of the adoption date as a result of applying the modified retrospective transition method. Revenues and costs related to certain contracts are recognized at a point in time under ASC 606 as the performance obligations related to certain types of sales are satisfied; whereas, previously these revenues and costs were recognized over a period of time under ASC 605. In addition, under the modified retrospective method, our prior period results were not recast to reflect the new revenue recognition standard. Except for the changes discussed with respect to revenue recognition, the impact of which is summarized in the tables below, we have consistently applied our accounting policies to the periods presented in our Financial Statements.

Balance Sheets and Statements of Cash Flows

The adoption of ASC 606 utilizing the modified retrospective transition method did not have a material impact to our Balance Sheets and Statements of Cash Flows as of and for the year ended December 31, 2018.

Games revenues

We previously reported certain costs incurred in connection with our WAP platform, consisting primarily of the jackpot expenses, as cost of revenues. Under ASC 606, such costs are reflected as reductions to gaming operations revenues on a net basis of presentation.

FinTech revenues

We previously reported costs and expenses related to our cash access services, which include commission expenses payable to casino operators, interchange fees payable to the network associations and processing, and related costs payable to other third party partners, as costs of revenues. As the result of our evaluation of the factors contained in ASC 605, we previously determined that the indicators requiring the gross reporting outweighed those for net reporting primarily due to the risk of loss. Under ASC 606, such costs are reflected as reductions to revenues on a net basis of presentation, since we determined that we do not control certain cash access services provided to a customer and, therefore, we are acting as an agent whose performance obligation is to arrange for the provision of these types of services. In addition, commission expenses payable to the gaming operators are determined to be consideration paid to customers under ASC 606.

The following table presents the impact of the application of ASC 606 utilizing the modified retrospective transition method to certain line items on our Statements of Income (Loss) for the year ended December 31, 2018 (in thousands):

	Year Ended December 31, 2018		
	As Reported	Adjustments	Without Adoption of ASC 606
Revenues			
Games revenues			
Gaming operations	\$ 168,146	\$ 2,364	\$ 170,510
Games total revenues	258,978	2,364	261,342
FinTech revenues			
Cash access services	156,806	629,641	786,447
Equipment	20,977	(1,622)	19,355
FinTech total revenues	210,537	628,019	838,556
Total revenues	469,515	630,383	1,099,898
Costs and expenses			
Games cost of revenues⁽¹⁾			
Gaming operations	17,603	2,364	19,967
Games total cost of revenues	68,009	2,364	70,373
FinTech cost of revenues⁽¹⁾			
Cash access services	9,717	629,092	638,809
Equipment	12,601	(825)	11,776
FinTech total cost of revenues	26,428	628,267	654,695
Total costs and expenses	383,702	630,631	1,014,333
Operating income	85,813	(248)	85,565
Income before income tax	2,646	(248)	2,398
Income tax benefit	(9,710)	—	(9,710)
Net income	12,356	(248)	12,108
Comprehensive income	10,611	(248)	10,363

(1) Exclusive of depreciation and amortization.

4. BUSINESS COMBINATIONS

We account for business combinations in accordance with ASC 805, which requires that the identifiable assets acquired and liabilities assumed be recorded at their estimated fair values on the acquisition date separately from goodwill, which is the excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities. We include the results of operations of an acquired business as of the acquisition date. We had no material acquisitions for the years ended December 31, 2018, 2017, and 2016.

In August 2015, we acquired certain assets of Resort Advantage, LLC (“Resort Advantage”), a supplier of comprehensive and integrated solutions for complete Financial Crimes Enforcement Network (“FinCEN”) and Internal Revenue Service regulatory compliance to the gaming industry, for an aggregate purchase price of approximately \$13.3 million, of which we estimated that approximately \$4.7 million (the “earn out liability”) would be paid under the provisions of the agreement over a period of 40 months (the “payout period”) based upon an evaluation over a period of 36 months (the “earn out period”) following the closing of the transaction. Upon expiration of the earn out period in August 2018, we analyzed the remaining earn out liability of approximately \$0.8 million and determined that approximately \$0.6 million would not be realized; therefore, we reversed that amount into income. We continued to record approximately \$0.2 million in remaining earn out liability to potentially be paid under the provisions of the agreement during the first quarter of 2019. The Resort Advantage acquisition did not have a material impact on our results of operations or financial condition.

5. FUNDING AGREEMENTS

Commercial Cash Arrangements

We have commercial arrangements with third party vendors to provide cash for certain of our ATMs. For the use of these funds, we pay a cash usage fee on either the average daily balance of funds utilized multiplied by a contractually defined cash usage rate or the amounts supplied multiplied by a contractually defined cash usage rate. These cash usage fees, reflected as interest expense within the Statements of Income (Loss), were \$7.0 million, \$4.9 million, and \$3.1 million for the years ended December 31, 2018, 2017, and 2016, respectively. We are exposed to interest rate risk to the extent that the applicable rates increase.

Under these agreements, the currency supplied by third party vendors remain their sole property until the funds are dispensed. As these funds are not our assets, supplied cash is not reflected in our Balance Sheets. The outstanding balances of ATM cash utilized by us from the third parties were approximately \$224.7 million and \$289.8 million as of December 31, 2018 and 2017, respectively.

Our primary commercial arrangement, the Contract Cash Solutions Agreement, as amended, with Wells Fargo provides us with cash in the maximum amount of \$300 million with the ability to increase the amount by \$75 million over a 5-day period for holidays, such as the period around New Year’s Day. The term of the agreement expires on June 30, 2021 and will auto renew for additional one-year periods unless either party provides a 90-day written notice of its intent not to renew.

We are responsible for any losses of cash in the ATMs under this agreement and we self-insure for this risk. We incurred no material losses related to this self-insurance for the years ended December 31, 2018, 2017, and 2016.

Site-Funded ATMs

We operate ATMs at certain customer gaming establishments where the gaming establishment provides the cash required for the ATM operational needs. We are required to reimburse the customer for the amount of cash dispensed from these site-funded ATMs. The site-funded ATM liability is included within settlement liabilities in the accompanying Balance Sheets and was \$249.6 million and \$210.8 million as of December 31, 2018 and 2017, respectively.

Everi-Funded ATMs

We enter into agreements with customers for certain of our Canadian ATMs whereby we provide the cash required to operate the ATMs. We supplied approximately \$4.8 million and \$6.9 million of our cash for these ATMs at December 31, 2018 and 2017, respectively, which represents an outstanding balance under such agreements at the end of the period. Such amounts are reported within settlement receivables line of our Balance Sheets.

Prefunded Cash Access Agreements

Due to certain regulatory requirements, some international gaming establishments require prefunding of cash to cover all outstanding settlement amounts in order for us to provide cash access services to their properties. We enter into agreements with these operators for which we supply our cash access services for their properties. Under these agreements, we maintain sole discretion to either continue or cease operations as well as discretion over the amounts prefunded to the properties and may request amounts to be refunded to us, with appropriate notice to the operator, at any time. The initial prefunded amounts and subsequent amounts from the settlement of transactions are deposited into a bank account that is to be used exclusively for cash access services, and we maintain the right to monitor all transaction activity in that account. The total amount of prefunded cash outstanding was approximately \$6.1 million and \$8.4 million at December 31, 2018 and 2017, respectively, and is included in prepaid expenses and other assets in our Balance Sheets.

6. TRADE AND OTHER RECEIVABLES

Trade receivables represent short-term credit granted to customers as well as long-term loans receivable on our games, equipment, and compliance products. Trade and loans receivables generally do not require collateral. The balance of trade and loans receivables consists of outstanding balances owed to us by gaming establishments. Other receivables include income tax receivables and other miscellaneous receivables.

The balance of trade and other receivables consisted of the following (in thousands):

	At December 31,	
	2018	2017
Trade and other receivables, net		
Games trade and loans receivables	\$ 53,011	\$ 38,070
FinTech trade and loans receivables	18,890	10,780
Other receivables	1,333	1,570
Total trade and other receivables, net	\$ 73,234	\$ 50,420
Non-current portion of receivables		
Games trade and loans receivables	(2,922)	(1,267)
FinTech trade and loans receivables ⁽¹⁾	(5,925)	(1,371)
Total non-current portion of receivables	\$ (8,847)	\$ (2,638)
Total trade and other receivables, current portion	\$ 64,387	\$ 47,782

(1) In connection with the adoption of ASC 606 utilizing the modified retrospective transition method, we recorded an immaterial cumulative adjustment with respect to certain amounts that had been previously deferred under the then existing revenue recognition guidance as of December 31, 2017 that required recognition under ASC 606 as of the effective date of adoption in accumulated deficit.

At least quarterly, we evaluate the collectability of the outstanding balances and establish a reserve for the amount of the expected losses on our receivables. The allowance for doubtful accounts for trade receivables was approximately \$6.4 million and \$4.7 million as of December 31, 2018 and 2017, respectively, and included approximately \$3.2 million and \$2.7 million of check warranty reserves, respectively. The provision for doubtful customer accounts receivable is generally included within operating expenses in the Statements of Income (Loss).

A summary activity of the reserve for check warranty losses is as follows (in thousands):

	Amount
Balance, December 31, 2015	\$ 2,973
Warranty expense provision	8,694
Charge-offs against reserve	(8,972)
Balance, December 31, 2016	2,695
Warranty expense provision	9,418
Charge-offs against reserve	(9,404)
Balance, December 31, 2017	2,709
Warranty expense provision	9,819
Charge-offs against reserve	(9,366)
Balance, December 31, 2018	\$ 3,162

7. INVENTORY

Our inventory primarily consists of component parts as well as work-in-progress and finished goods. The cost of inventory includes cost of materials, labor, overhead and freight. The inventory is stated at the lower of cost or net realizable value and accounted for using the FIFO method.

There was no material impairment of our inventory for the years ended December 31, 2018 and 2017.

We recorded an immaterial impairment charge of approximately \$1.8 million in our Games segment for the year ended December 31, 2018 to reduce the carrying value of certain component parts to their fair values. The adjustment was included in operating expenses in our Statements of Income (Loss).

Inventory consisted of the following (in thousands):

	At December 31,	
	2018	2017
Inventory		
Component parts, net of reserves of \$1,468 and \$1,327 at December 31, 2018 and December 31, 2017, respectively	\$ 23,197	\$ 18,782
Work-in-progress	280	985
Finished goods	926	4,200
Total inventory	<u>\$ 24,403</u>	<u>\$ 23,967</u>

8. PREPAID AND OTHER ASSETS

Prepaid and other assets include the balance of prepaid expenses, deposits, debt issuance costs on our New Revolving Credit Facility (defined herein), restricted cash and other assets. The current portion of these assets is included in prepaid and other assets and the non-current portion is included in other assets, both of which are contained within our Balance Sheets.

The balance of the current portion of prepaid and other assets consisted of the following (in thousands):

	At December 31,	
	2018	2017
Prepaid expenses and other assets		
Deposits	\$ 8,241	\$ 9,003
Prepaid expenses	8,351	6,426
Other	3,667	5,241
Total prepaid expenses and other assets	<u>\$ 20,259</u>	<u>\$ 20,670</u>

The balance of the non-current portion of other assets consisted of the following (in thousands):

	At December 31,	
	2018	2017
Other assets		
Prepaid expenses and deposits	\$ 5,289	\$ 4,103
Debt issuance costs of revolving credit facility	654	849
Other	309	2,657
Total other assets	<u>\$ 6,252</u>	<u>\$ 7,609</u>

9. PROPERTY, EQUIPMENT AND LEASED ASSETS

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

	Useful Life (Years)	At December 31, 2018			At December 31, 2017		
		Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Property, equipment and leased assets							
Rental pool - deployed	2-4	\$ 183,309	\$ 105,038	\$ 78,271	\$ 162,319	\$ 80,895	\$ 81,424
Rental pool - undeployed	2-4	23,825	14,680	9,145	17,366	9,374	7,992
FinTech equipment	3-5	27,285	21,000	6,285	25,907	18,654	7,253
Leasehold and building improvements	Lease Term	11,857	6,938	4,919	10,981	5,211	5,770
Machinery, office and other equipment	2-5	46,322	28,654	17,668	35,167	24,087	11,080
Total		<u>\$ 292,598</u>	<u>\$ 176,310</u>	<u>\$ 116,288</u>	<u>\$ 251,740</u>	<u>\$ 138,221</u>	<u>\$ 113,519</u>

Depreciation expense related to property, equipment and leased assets totaled approximately \$61.2 million, \$47.3 million, and \$50.0 million for the years ended December 31, 2018, 2017, and 2016, respectively.

There was no material impairment of our property, equipment and leased assets for the years ended December 31, 2018 and 2017.

We recorded an immaterial impairment charge of approximately \$0.8 million in our Games segment for the year ended December 31, 2018 to reduce the carrying value of certain leased assets to their fair values. The adjustment was included in operating expenses in our Statements of Income (Loss).

10. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price over the identifiable tangible and intangible assets acquired plus liabilities assumed arising from business combinations.

In accordance with ASC 350, we test goodwill at the reporting unit level, which are identified as operating segments or one level below, for impairment on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

We test for impairment annually on a reporting unit basis, at the beginning of our fourth fiscal quarter, or more often under certain circumstances. The annual impairment test is completed using either: a qualitative “Step 0” assessment based on reviewing relevant events and circumstances; or a quantitative “Step 1” assessment, which determines the fair value of the reporting unit, using both an income approach that discounts future cash flows based on the estimated future results of our reporting units and a market approach that compares market multiples of comparable companies to determine whether or not any impairment exists.

Goodwill Testing

In performing our annual goodwill impairment tests, we utilize the approach prescribed under ASC 350. The “Step 1” required a comparison of the carrying amount of each reporting unit to its estimated fair value. To estimate the fair value of our reporting units for “Step 1”, we used a combination of an income valuation approach and a market valuation approach. The income approach is based on a discounted cash flow (“DCF”) analysis. This method involves estimating the after-tax cash flows attributable to a reporting unit and then discounting the after-tax cash flows to a present value, using a risk-adjusted discount rate. Assumptions used in the DCF require the exercise of significant judgment, including, but not limited to: appropriate discount rates and terminal values, growth rates and the amount and timing of expected future cash flows. The projected cash flows are based on our most recent annual budget and projected years beyond. Our budgets and projected cash flows are based on estimated future growth rates. We believe our assumptions are consistent with the plans and estimates used to manage the underlying businesses. The discount rates, which are intended to reflect the risks inherent in future cash flow projections, used in the DCF are based on estimates of the WACC of market participants relative to each respective reporting unit. The market approach considers comparable market data based on multiples of revenue or earnings before interest, taxes, depreciation and amortization (“EBITDA”). If the fair value of a reporting unit is less than its carrying amount, an impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the fair value of that goodwill is recorded in accordance with ASC 350.

We had approximately \$640.5 million and \$640.6 million of goodwill on our Balance Sheets as of December 31, 2018 and 2017, respectively, resulting from acquisitions of other businesses.

In connection with our annual goodwill impairment testing process for 2018 and 2017, we determined that no impairment adjustments were necessary. The fair value exceeded the carrying amount for each of the Games, Cash Access Services, Kiosk Sales and Services, Central Credit Services and Compliance Sales and Services reporting units for 2018 and 2017.

In connection with our annual goodwill impairment testing process 2016, we determined that impairment adjustments were necessary. The fair value exceeded the carrying amount for each of the Cash Access Services, Kiosk Sales and Services, Central Credit Services and Compliance Sales and Services reporting units, while Games reporting unit had a goodwill impairment of \$146.3 million for 2016. The impairment recorded in 2016 was primarily based upon limited growth and capital expenditure constraints in the gaming industry, consolidation and increased competition in the gaming manufacturing space, stock market volatility, global and domestic economic uncertainty, and lower than forecasted operating profits and cash flows. Based on these indicators, we revised our estimates and assumptions for the Games reporting unit.

Management performs its annual forecasting process, which, among other factors, includes reviewing recent historical results, company-specific variables and industry trends. This process is generally completed in the fourth quarter and considered in conjunction with the annual goodwill impairment evaluation.

The annual evaluation of goodwill requires the use of estimates about future operating results of each reporting unit to determine its estimated fair value. Changes in forecasted operations can materially affect these estimates, which could materially affect our results of operations. The estimates of fair value require significant judgment and are based on assumptions we determined to be reasonable; however, that are unpredictable and inherently uncertain, including, estimates of future growth rates, operating margins, and assumptions about the overall economic climate as well as the competitive environment for our reporting units. There can be no assurance that our estimates and assumptions made for purposes of our goodwill testing as of the time of testing will prove to be accurate predictions of the future. If our assumptions regarding business plans, competitive environments or anticipated growth rates are not correct, we may be required to record goodwill impairment charges in future periods, whether in connection with our next annual impairment testing, or earlier, if an indicator of an impairment is present prior to our next annual evaluation.

Our reporting units are identified as operating segments or one level below. Reporting units must: (a) engage in business activities from which they earn revenues and incur expenses; (b) have operating results that are regularly reviewed by our segment management to ascertain the resources to be allocated to the segment and assess its performance; and (c) have discrete financial information available. Our reporting units included: Games, Cash Access Services, Kiosk Sales and Services, Central Credit Services, and Compliance Sales and Services.

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

	<u>Games</u>	<u>Cash Access Services</u>	<u>Kiosk Sales and Services</u>	<u>Central Credit Services</u>	<u>Compliance Sales and Services</u>	<u>Total</u>
Goodwill						
Balance, December 31, 2016	\$ 449,041	\$ 157,055	\$ 5,745	\$ 17,127	\$ 11,578	\$ 640,546
Foreign translation adjustment	—	43	—	—	—	43
Balance, December 31, 2017	\$ 449,041	\$ 157,098	\$ 5,745	\$ 17,127	\$ 11,578	\$ 640,589
Foreign translation adjustment	—	(52)	—	—	—	(52)
Balance, December 31, 2018	<u>\$ 449,041</u>	<u>\$ 157,046</u>	<u>\$ 5,745</u>	<u>\$ 17,127</u>	<u>\$ 11,578</u>	<u>\$ 640,537</u>

Other Intangible Assets

Other intangible assets consist of the following (in thousands):

	Weighted Average Remaining Life (Years)	At December 31, 2018			At December 31, 2017		
		Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Other intangible assets							
Contract rights under placement fee agreements	4	\$ 57,440	\$ 12,178	\$ 45,262	\$ 57,231	\$ 3,910	\$ 53,321
Customer contracts	6	51,175	46,162	5,013	51,175	43,638	7,537
Customer relationships	8	231,100	84,619	146,481	231,100	63,653	167,447
Developed technology and software	2	277,243	190,886	86,357	249,064	158,919	90,145
Patents, trademarks and other	4	29,168	24,884	4,284	29,046	23,185	5,861
Total		<u>\$646,126</u>	<u>\$ 358,729</u>	<u>\$ 287,397</u>	<u>\$617,616</u>	<u>\$ 293,305</u>	<u>\$ 324,311</u>

Amortization expense related to other intangible assets totaled approximately \$65.2 million, \$69.5 million, and \$94.6 million for the years ended December 31, 2018, 2017, and 2016, respectively. We capitalized \$33.3 million, \$29.4 million, and \$24.2 million of internal software development costs for the years ended December 31, 2018, 2017, and 2016, respectively.

On a quarterly basis, we evaluate our other intangible assets for potential impairment as part of our quarterly review process. There was no material impairment identified for any of our other intangible assets for the years ended December 31, 2018, 2017, and 2016.

The anticipated amortization expense related to other intangible assets, assuming no subsequent impairment of the underlying assets, is as follows (in thousands):

Anticipated amortization expense	Amount
2019	\$ 64,380
2020	52,168
2021	41,440
2022	33,473
2023	20,241
Thereafter	50,316
Total⁽¹⁾	<u>\$ 262,018</u>

(1) For the year ended December 31, 2018, the Company had \$25.4 million in other intangible assets which had not yet been placed into service.

We enter into placement fee agreements to secure a long-term revenue share percentage and a fixed number of player terminal placements in a gaming facility. The funding under placement fee agreements is not reimbursed. In return for the fees under these agreements, each facility dedicates a percentage of its floor space, or an agreed upon unit count, for the placement of our electronic gaming machines (“EGMs”) over the term of the agreement, generally from 12 to 83 months, and we receive a fixed percentage or flat fee of those machines’ hold per day. Certain of the agreements contain EGM performance standards that could allow the respective facility to reduce a portion of our guaranteed floor space.

Placement fees and amounts advanced in excess of those to be reimbursed by the customer for real property and land improvements are allocated to intangible assets and are generally amortized over the term of the contract, which is recorded as a reduction of revenue generated from the facility. In the past we have, and in the future, we may, by mutual agreement, amend these agreements to reduce our floor space at the facilities. Any proceeds received for the reduction of floor space are first applied against the intangible asset for that particular placement fee agreement, if any, and the remaining net book value of the intangible asset is prospectively amortized on a straight-line method over the remaining estimated useful life.

In July 2017, we entered into a placement fee agreement with a customer for certain of its locations for approximately \$49.1 million, net of \$10.1 million of unamortized fees related to superseded contracts. We paid approximately \$22.7 million and \$13.3 million in placement fees to this customer for the years ended December 31, 2018 and 2017, respectively. The payments made in 2018 included approximately \$2.1 million of imputed interest.

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following table presents our accounts payable and accrued expenses (amounts in thousands):

	At December 31,	
	2018	2017
Accounts payable and accrued expenses		
Trade accounts payable	\$ 70,796	\$ 59,435
Placement fees ⁽¹⁾	16,746	22,328
Payroll and related expenses	15,055	14,178
Deferred and unearned revenues	12,887	10,450
Other	6,303	11,303
Cash access processing and related expenses	4,160	8,932
Accrued taxes	1,917	2,112
Accrued interest	1,374	5,766
Total accounts payable and accrued expenses	\$ 129,238	\$ 134,504

(1) The total outstanding balance of the placement fee liability was approximately \$16.7 million and \$39.1 million as of December 31, 2018 and 2017, respectively. The placement fee liability was considered current portion due to the remaining obligation being due within twelve months of December 31, 2018. The remaining non-current placement fees of approximately \$16.8 million as of December 31, 2017 were included in other accrued expenses and liabilities in our Balance Sheets.

12. LONG-TERM DEBT

The following table summarizes our indebtedness (in thousands):

	At December 31,	
	2018	2017
Long-term debt		
Senior secured term loan	\$ 807,700	\$ 815,900
Senior unsecured notes	375,000	375,000
Total debt	1,182,700	1,190,900
Debt issuance costs and discount	(19,484)	(23,057)
Total debt after debt issuance costs and discount	1,163,216	1,167,843
Current portion of long-term debt	(8,200)	(8,200)
Long-term debt, less current portion	\$ 1,155,016	\$ 1,159,643

Refinancings

On May 9, 2017 (the “Closing Date”), Everi Payments, as borrower, and Holdings entered into a credit agreement with the lenders party thereto and Jefferies Finance LLC, as administrative agent, collateral agent, swing line lender, letter of credit issuer, sole lead arranger and sole book manager (amended as described below, the “New Credit Agreement”). The New Credit Agreement provides for: (i) a \$35.0 million, five-year senior secured revolving credit facility (the “New Revolving Credit Facility”); and (ii) an \$820.0 million, seven-year senior secured term loan facility (the “New Term Loan Facility,” and together with the New Revolving Credit Facility, the “New Credit Facilities”). The fees associated with the New Credit Facilities included discounts of approximately \$4.1 million and debt issuance costs of approximately \$15.5 million. All borrowings under the New Revolving Credit Facility are subject to the satisfaction of customary conditions, including the absence of defaults and the accuracy of representations and warranties.

The proceeds from the New Term Loan Facility incurred on the Closing Date were used to: (i) refinance: (a) Everi Payments' existing credit facility with an outstanding balance of approximately \$462.3 million with Bank of America, N.A., as administrative agent, collateral agent, swing line lender and letter of credit issuer, Deutsche Bank Securities Inc., as syndication agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Deutsche Bank Securities Inc., as joint lead arrangers and joint book managers (the "Prior Credit Facility"); and (b) Everi Payments' 7.25% Senior Secured Notes due 2021 in the aggregate original principal amount of \$335.0 million (the "Refinanced Secured Notes"); and (ii) pay related transaction fees and expenses.

In connection with the refinancing, we recorded a non-cash charge of approximately \$14.6 million during the second quarter of 2017 related to the unamortized deferred financing fees and discounts related to the extinguished term loan under the Prior Credit Facility and the redeemed Refinanced Secured Notes. No prepayment penalties were incurred.

On November 13, 2017 (the "Repricing Closing Date"), we entered into an amendment to the New Credit Agreement (the "First Amendment") which, among other things, reduced the interest rate on the approximately \$818.0 million then-outstanding balance of the New Term Loan Facility; however, it did not change the maturity dates for the New Term Loan Facility or the New Revolving Credit Facility or the financial covenants or other debt repayments terms set forth in the New Credit Agreement. We incurred approximately \$3.0 million of debt issuance costs and fees associated with the repricing of the New Term Loan Facility.

On May 17, 2018, we entered into a Second Amendment (the "Second Amendment") to the New Credit Agreement, which reduced the interest rate on the \$813.9 million outstanding balance of the senior secured term loan under the Credit Agreement by 50 basis points to LIBOR + 3.00% from LIBOR + 3.50% with the LIBOR floor unchanged at 1.00%. The senior secured term loan under the Credit Agreement will be subject to a prepayment premium of 1.00% of the principal amount repaid for any voluntary prepayment or mandatory prepayment with proceeds of debt that has a lower effective yield than the repriced term loan or any amendment to the repriced term loan that reduces the interest rate thereon, in each case, to the extent occurring within six months of the effective date of the Second Amendment. The maturity date for the Credit Agreement remains May 9, 2024, and no changes were made to the financial covenants or other debt repayment terms. We incurred approximately \$1.3 million of debt issuance costs and fees associated with the repricing of the New Term Loan Facility.

New Credit Facilities

The New Term Loan Facility matures seven years after the Closing Date and the New Revolving Credit Facility matures five years after the Closing Date. The New Revolving Credit Facility is available for general corporate purposes, including permitted acquisitions, working capital and the issuance of letters of credit.

The interest rate per annum applicable to loans under the New Revolving Credit Facility is, at Everi Payments' option, the base rate or the Eurodollar Rate (defined to be the London Interbank Offered Rate or a comparable or successor rate) (the "Eurodollar Rate") plus, in each case, an applicable margin. The interest rate per annum applicable to the New Term Loan Facility also is, at Everi Payments' option, the base rate or the Eurodollar Rate plus, in each case, an applicable margin. The Eurodollar Rate is reset at the beginning of each selected interest period based on the Eurodollar Rate then in effect; provided that, if the Eurodollar Rate is below zero, then such rate will be equal to zero plus the applicable margin. The base rate is a fluctuating interest rate equal to the highest of: (i) the prime lending rate announced by the administrative agent; (ii) the federal funds effective rate from time to time plus 0.50%; and (iii) the Eurodollar Rate (after taking account of any applicable floor) applicable for an interest period of one month plus 1.00%. Prior to the effectiveness of the First Amendment on the Repricing Closing Date, the applicable margins for both the New Revolving Credit Facility and the New Term Loan Facility were: (i) 4.50% in respect of Eurodollar Rate loans and (ii) 3.50% in respect of base rate loans. The applicable margins for the New Term Loan Facility from and after the effectiveness of the First Amendment on the Repricing Closing Date through the effectiveness of the Second Amendment were: (i) 3.50% in respect of Eurodollar Rate loans and (ii) 2.50% in respect of base rate loans. The applicable margins for the New Term Loan Facility from and after the effectiveness of the Second Amendment are: (i) 3.00% in respect of Eurodollar Rate loans and (ii) 2.00% in respect of base rate loans.

Voluntary prepayments of the term loan and the revolving loans and voluntary reductions in the unused commitments are permitted in whole, or in part, in minimum amounts as set forth in the New Credit Agreement governing the New Credit Facilities, with prior notice, however, without premium or penalty, except that certain refinancings of the term loans within six months after the Repricing Closing Date will be subject to a prepayment premium of 1.00% of the principal amount repaid.

Subject to certain exceptions, the obligations under the New Credit Facilities are secured by substantially all of the present and subsequently acquired assets of each of Everi Payments, Holdings and the subsidiary guarantors party thereto including: (i) a perfected first priority pledge of all the capital stock of Everi Payments and each domestic direct, wholly owned material restricted subsidiary held by Holdings, Everi Payments or any such subsidiary guarantor; and (ii) a perfected first priority security interest in substantially all other tangible and intangible assets of Holdings, Everi Payments, and such subsidiary guarantors (including, but not limited to, accounts receivable, inventory, equipment, general intangibles, investment property, real property, intellectual

property and the proceeds of the foregoing). Subject to certain exceptions, the New Credit Facilities are unconditionally guaranteed by Holdings and such subsidiary guarantors.

The New Credit Agreement governing the New Credit Facilities contains certain covenants that, among other things, limit Holdings' ability, and the ability of certain of its subsidiaries, to incur additional indebtedness, sell assets or consolidate or merge with or into other companies, pay dividends or repurchase or redeem capital stock, make certain investments, issue capital stock of subsidiaries, incur liens, prepay, redeem or repurchase subordinated debt, and enter into certain types of transactions with its affiliates. The New Credit Agreement governing the New Credit Facilities also requires Holdings, together with its subsidiaries, to comply with a consolidated secured leverage ratio. At December 31, 2018, our consolidated secured leverage ratio was 3.28 to 1.00, with a maximum allowable ratio of 4.75 to 1.00. Our maximum consolidated secured leverage will be reduced to 4.50 to 1.00 as of December 31, 2019, 4.25 to 1.00 as of December 31, 2020, and 4.00 to 1.00 as of December 31, 2021 and each December 31 thereafter.

We were in compliance with the covenants and terms of the New Credit Facilities as of December 31, 2018.

Events of default under the New Credit Agreement governing the New Credit Facilities include customary events such as a cross-default provision with respect to other material debt. In addition, an event of default will occur if Holdings undergoes a change of control. This is defined to include the case where Holdings ceases to own 100% of the equity interests of Everi Payments, or where any person or group acquires a percentage of the economic or voting interests of Holdings' capital stock of 35% or more (determined on a fully diluted basis).

We are required to repay the New Term Loan Facility in an amount equal to 0.25% per quarter of the initial aggregate principal, with the final principal repayment installment on the maturity date. Interest is due in arrears on each interest payment date applicable thereto and at such other times as may be specified in the New Credit Agreement. As to any loan other than a base rate loan, the interest payment dates shall be the last day of each interest period applicable to such loan and the maturity date (provided, however, that if any interest period for a Eurodollar Rate loan exceeds three months, the respective dates that fall every three months after the beginning of such interest period shall also be interest payment dates). As to any base rate loan, the interest payment dates shall be last business day of each March, June, September and December and the maturity date.

For the year ended December 31, 2018, the New Term Loan Facility had an applicable weighted average interest rate of 5.17%.

At December 31, 2018, we had approximately \$807.7 million of borrowings outstanding under the New Term Loan Facility and no borrowings outstanding under the New Revolving Credit Facility. We had \$35.0 million of additional borrowing availability under the New Revolving Credit Facility as of December 31, 2018.

Refinanced Senior Secured Notes

In connection with entering into the New Credit Agreement, on May 9, 2017, Everi Payments redeemed in full all outstanding Refinanced Secured Notes in the aggregate principal amount of \$335.0 million plus accrued and unpaid interest. As a result of the redemption, the Company recorded non-cash charges in the amount of approximately \$1.7 million, which consisted of unamortized deferred financing fees of \$0.2 million and discounts of \$1.5 million, which were included in the total \$14.6 million non-cash charge.

Senior Unsecured Notes

In December 2014, we issued \$350.0 million in aggregate principal amount of 10.0% Senior Unsecured Notes due 2022 (the "2014 Unsecured Notes") under an indenture (as supplemented, the "2014 Notes Indenture"), dated December 19, 2014, between Everi Payments (as successor issuer), and Deutsche Bank Trust Company Americas, as trustee. The fees associated with the 2014 Unsecured Notes included original issue discounts of approximately \$3.8 million and debt issuance costs of approximately \$14.0 million. In December 2015, we completed an exchange offer in which all of the unregistered 2014 Unsecured Notes were exchanged for a like amount of 2014 Unsecured Notes that had been registered under the Securities Act.

In December 2017, we issued \$375.0 million in aggregate principal amount of 7.50% Senior Unsecured Notes due 2025 (the "2017 Unsecured Notes") under an indenture (the "2017 Notes Indenture"), dated December 5, 2017, among Everi Payments (as issuer), Holdings and certain of its direct and indirect domestic subsidiaries as guarantors, and Deutsche Bank Trust Company Americas, as trustee. Interest on the 2017 Unsecured Notes accrues at a rate of 7.50% per annum and is payable semi-annually in arrears on each June 15 and December 15, commencing on June 15, 2018. The 2017 Unsecured Notes will mature on December 15, 2025. We incurred approximately \$6.1 million of debt issuance costs and fees associated with the refinancing of our 2017 Unsecured Notes.

On December 5, 2017, together with the issuance of the 2017 Unsecured Notes, Everi Payments satisfied and discharged the 2014 Notes Indenture relating to the 2014 Unsecured Notes. To effect the satisfaction and discharge, Everi Payments issued an unconditional notice of redemption to Deutsche Bank Trust Company Americas, as trustee, of the redemption in full on January 15, 2018 (the “Redemption Date”) of all outstanding 2014 Unsecured Notes under the terms of the 2014 Notes Indenture. In addition, using the proceeds from the sale of the 2017 Unsecured Notes and cash on hand, Everi Payments irrevocably deposited with the trustee funds sufficient to pay the redemption price of the 2014 Unsecured Notes of 107.5% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the Redemption Date (the “Redemption Price”), and irrevocably instructed the trustee to apply the deposited money toward payment of the Redemption Price for the 2014 Unsecured Notes on the Redemption Date. Upon the trustee’s receipt of such funds and instructions, along with an officer’s certificate of Everi Payments and an opinion of counsel certifying and opining that all conditions under the 2014 Notes Indenture to the satisfaction and discharge of the 2014 Notes Indenture had been satisfied, the 2014 Notes Indenture was satisfied and discharged, and all of the obligations of Everi Payments and the guarantors under the 2014 Notes Indenture ceased to be of further effect, as of December 5, 2017 (subject to certain exceptions). The 2014 Unsecured Notes were thereafter redeemed on the Redemption Date.

In connection with the issuance of the 2017 Unsecured Notes and the redemption of the 2014 Unsecured Notes, we incurred a \$37.2 million loss on extinguishment of debt consisting of a \$26.3 million make-whole premium related to the satisfaction and redemption of the 2014 Unsecured Notes and approximately \$10.9 million for the write-off of related unamortized debt issuance costs and fees.

We were in compliance with the terms of the 2017 Unsecured Notes as of December 31, 2018.

Principal Repayments

The maturities of our borrowings at December 31, 2018 are as follows (in thousands):

	Amount
Maturities of borrowings	
2019	\$ 8,200
2020	8,200
2021	8,200
2022	8,200
2023	8,200
Thereafter	1,141,700
Total	\$ 1,182,700

13. COMMITMENTS AND CONTINGENCIES

Placement Fee Arrangements

In July 2017, we extended the term of our then-existing placement fee agreement to 6 years and 11 months with our largest customer in Oklahoma. Under the terms of the agreement, we will pay approximately \$5.6 million per quarter in placement fees, inclusive of imputed interest, beginning in January 2018 and ending in July 2019. We paid approximately \$22.7 million and \$13.3 million in placement fees to this customer for the years ended December 31, 2018 and 2017, respectively. The payments made in 2018 included approximately \$2.1 million of imputed interest.

Lease Obligations

We lease office facilities and operating equipment under cancelable and non-cancelable agreements. Total rent expense was approximately \$7.8 million, \$6.8 million, and \$6.8 million for the years ended December 31, 2018, 2017, and 2016, respectively.

We have a long-term lease agreement related to office space for our corporate headquarters located in Las Vegas, Nevada that expires in April 2023.

In September 2014, the long-term lease agreement for office space in Austin, Texas was extended through June 2021.

We also have leased facilities in Chicago, Illinois and Reno, Nevada, which support the design, production and expansion of our gaming content. The long-term lease agreement for our Chicago facilities commenced in November 2015 and expires in June 2023. The long-term lease agreement for our Reno facilities commenced in February 2016 and expires in May 2021.

As of December 31, 2018, the minimum aggregate rental commitment under all non-cancelable operating leases were as follows (in thousands):

	<u>Amount</u>
Minimum aggregate rental commitments	
2019	\$ 5,570
2020	5,680
2021	4,598
2022	2,799
2023	1,074
Thereafter	—
Total	<u>\$ 19,721</u>

Litigation Claims and Assessments

We are subject to claims and suits that arise from time to time in the ordinary course of business. We do not believe the liabilities, if any, which may ultimately result from the outcome of such matters, individually or in the aggregate, will have a material adverse impact on our financial position, liquidity, or results of operations.

14. SHAREHOLDERS' EQUITY

Preferred Stock. Our amended and restated certificate of incorporation, as amended, allows our Board of Directors, without further action by stockholders, to issue up to 50,000,000 shares of preferred stock in one or more series and to fix the designations, powers, preferences, privileges and relative participating, optional, or special rights as well as the qualifications, limitations or restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences. As of December 31, 2018 and 2017, we had no shares of preferred stock outstanding.

Common Stock. Subject to the preferences that may apply to shares of preferred stock that may be outstanding at the time, the holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available at the times and in the amounts as our Board of Directors may from time to time determine. All dividends are non-cumulative. In the event of the liquidation, dissolution or winding up of Everi, the holders of common stock are entitled to share ratably in all assets remaining after the payment of liabilities, subject to the prior distribution rights of preferred stock, if any, then outstanding. Each stockholder is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Cumulative voting for the election of directors is not provided for. The common stock is not entitled to preemptive rights and is not subject to conversion or redemption. There are no sinking fund provisions applicable to the common stock. Each outstanding share of common stock is fully paid and non-assessable. As of December 31, 2018 and 2017, we had 95,099,532 and 93,119,988 shares of common stock issued, respectively.

Treasury Stock. Employees may direct us to withhold vested shares of restricted stock to satisfy the minimum statutory withholding requirements applicable to their restricted stock vesting. We repurchased or withheld from restricted stock awards 17,552 and 15,457 shares of common stock at an aggregate purchase price of \$0.1 million for the years ended December 31, 2018 and 2017 to satisfy the minimum applicable tax withholding obligations related to the vesting of such restricted stock awards.

15. WEIGHTED AVERAGE SHARES OF COMMON STOCK

The weighted average number of common stock outstanding used in the computation of basic and diluted earnings per share is as follows (in thousands):

	At December 31,		
	2018	2017	2016
Weighted average shares			
Weighted average number of common shares outstanding - basic	69,464	66,816	66,050
Potential dilution from equity awards ⁽¹⁾	4,332	—	—
Weighted average number of common shares outstanding - diluted ⁽¹⁾	<u>73,796</u>	<u>66,816</u>	<u>66,050</u>

- (1) The potential dilution excludes the weighted average effect of equity awards to purchase approximately 7.5 million shares of common stock for the year ended December 31, 2018, as the application of the treasury stock method, as required, makes them anti-dilutive. The Company was in a net loss position for the years ended December 31, 2017 and 2016; therefore, no potential dilution from the application of the treasury stock method was applicable. Equity awards to purchase approximately 16.0 million and 15.7 million shares of common stock for the years ended December 31, 2017 and 2016, respectively, were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive.

16. SHARE-BASED COMPENSATION

Equity Incentive Awards

Our 2014 Equity Incentive Plan (as amended and restated effective May 23, 2017, the “Amended and Restated 2014 Plan”) and our 2012 Equity Incentive Plan (as amended, the “2012 Plan”) are used to attract and retain the best available personnel, to provide additional incentives to employees, directors and consultants and to promote the success of our business. Our equity incentive plans are administered by the Compensation Committee of our Board of Directors, which has the authority to select individuals who are to receive equity incentive awards and to specify the terms and conditions of grants of such awards, including, but not limited to the vesting provisions and exercise prices.

Generally, we grant the following award types: (a) time-based options; (b) market-based options; (c) time-based restricted stock; and (d) restricted stock units (“RSUs”) with either time- or performance-based criteria.

A summary of award activity is as follows (in thousands):

	Stock Options Granted	Restricted Stock Awards Granted	Restricted Stock Units Granted
Outstanding, December 31, 2017	19,131	74	—
Granted	20	—	1,877
Exercised options or vested shares	(1,980)	(66)	—
Cancelled or forfeited	(1,497)	—	(80)
Outstanding, December 31, 2018	<u>15,674</u>	<u>8</u>	<u>1,797</u>

There were approximately 3.6 million awards of our common stock available for future equity grants, both under the Amended and Restated 2014 Plan and the 2012 Plan as of December 31, 2018.

Stock Options

Our time-based stock options granted under our equity plans generally vest at a rate of 25% per year on each of the first four anniversaries of the option grant dates and the options expire after a ten-year period. We estimate forfeiture amounts based on historical patterns.

Our market-based options granted in 2017 and 2016 under our 2014 Plan and 2012 Plan vest at a rate of 25% per year on each of the first four anniversaries of the grant date, provided that as of the vesting date for each vesting tranche, the closing price of the Company’s shares on the New York Stock Exchange is at least a specified price hurdle, defined as a 25% and 50% premium for 2017 and 2016, respectively, to the closing stock price on the grant date. If the price hurdle is not met as of the vesting date for a

vesting tranche, then the vested tranche shall vest and become vested shares on the last day of a period of 30 consecutive trading days during which the closing price is at least the price hurdle. These options expire after a ten-year period.

There were no market-based option awards granted during the year ended December 31, 2018.

The fair values of our standard time-based options were determined as of the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,		
	2018	2017	2016
Risk-free interest rate	3%	2%	1%
Expected life of options (in years)	6	6	5
Expected volatility	53%	54%	51%
Expected dividend yield	—	—	—

The fair values of our market-based options were determined as of the date of grant using a lattice-based option valuation model with the following assumptions:

	Year Ended December 31,	
	2017	2016
Risk-free interest rate	3%	2%
Measurement period (in years)	10	10
Expected volatility	70%	68%
Expected dividend yield	—	—

The following table presents the options activity:

	Number of Options (in thousands)	Weighted Average Exercise Price (per Share)	Weighted Average Life Remaining (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, December 31, 2017	19,131	\$ 5.34	6.4	\$ 45,887
Granted	20	7.88		
Exercised	(1,980)	4.84		
Canceled or forfeited	(1,497)	5.51		
Outstanding, December 31, 2018	<u>15,674</u>	\$ 5.39	6.0	\$ 17,733
Vested and expected to vest, December 31, 2018	<u>14,947</u>	\$ 5.44	5.9	\$ 16,559
Exercisable, December 31, 2018	<u>9,728</u>	\$ 6.15	5.3	\$ 7,284

The following table presents the options outstanding and exercisable by price range:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding (in thousands)	Weighted Average Remaining Contract Life (Years)	Weighted Average Exercise Prices	Number Exercisable (in thousands)	Weighted Average Exercise Price
\$ 1.46 \$ 2.40	2,630	7.3	\$ 1.54	1,110	\$ 1.55
2.70 2.78	565	7.1	2.77	515	2.77
3.29 3.29	3,326	8.2	3.29	741	3.29
3.41 7.05	2,611	4.1	5.81	2,545	5.79
7.09 7.61	929	5.5	7.34	810	7.32
7.74 9.74	5,613	4.9	8.19	4,007	8.36
	<u>15,674</u>			<u>9,728</u>	

There were 20,000, 4.3 million, and 4.4 million options granted for the years ended December 31, 2018, 2017, and 2016, respectively. The weighted average grant date fair value per share of the options granted was \$4.15, \$1.98, and \$0.83 for the years ended December 31, 2018, 2017, and 2016, respectively. The total intrinsic value of options exercised was \$6.5 million and \$5.3 million for the years ended December 31, 2018 and 2017. There were no options exercised in 2016.

There was approximately \$3.4 million in unrecognized compensation expense related to options expected to vest as of December 31, 2018. This cost was expected to be recognized on a straight-line basis over a weighted average period of 2.8 years. We recorded approximately \$5.1 million in non-cash compensation expense related to options granted that were expected to vest as of December 31, 2018. We received approximately \$9.6 million in cash proceeds from the exercise of options during 2018.

There was approximately \$7.9 million and \$11.7 million in unrecognized compensation expense related to options expected to vest as of December 31, 2017 and 2016, respectively. This cost was expected to be recognized on a straight-line basis over a weighted average period of 3.5 years and 2.1 years for the years ended December 31, 2017 and 2016, respectively. We recorded approximately \$6.0 million and \$6.3 million in non-cash compensation expense related to options granted that were expected to vest as of December 31, 2017 and 2016, respectively. We received approximately \$10.9 million in cash proceeds from the exercise of options during 2017 and there was no exercise of options during 2016, as no exercises occurred during the period.

Restricted Stock Awards

The following is a summary of non-vested share awards for our time-based restricted shares:

	Shares Outstanding (in thousands)	Weighted Average Grant Date Fair Value (per Share)
Outstanding, December 31, 2017	74	\$ 7.00
Granted	—	—
Vested	(66)	7.04
Forfeited	—	—
Outstanding, December 31, 2018	<u>8</u>	<u>\$ 6.66</u>

There were no shares of restricted stock granted for the year ended December 31, 2018. The total fair value of restricted stock vested was approximately \$0.5 million for the year ended December 31, 2018. There was \$31,952 in unrecognized compensation expense related to shares of restricted stock expected to vest as of December 31, 2018, which was expected to be recognized on a straight-line basis over a weighted average period of 0.3 years. There were 65,501 shares of restricted stock that vested during 2018, and we recorded approximately \$0.4 million in non-cash compensation expense related to the restricted stock granted that was expected to vest during 2018.

There were 50,000 shares of restricted stock granted for the year ended December 31, 2017 and no shares of restricted stock granted for the year ended December 31, 2016. The total fair value of restricted stock vested was approximately \$0.4 million and approximately \$0.2 million for the years ended December 31, 2017 and 2016, respectively. There was approximately \$0.5 million and approximately \$1.0 million in unrecognized compensation expense related to shares of time-based restricted awards expected to vest as of December 31, 2017 and 2016, respectively, and is expected to be recognized on a straight-line basis over a weighted average period of 1.1 years and 1.7 years, respectively. There were 56,578 shares and 74,919 shares of restricted stock that vested during 2017 and 2016, respectively, and we recorded approximately \$0.4 million and approximately \$0.5 million in non-cash compensation expense related to the restricted stock granted that was expected to vest during 2017 and 2016, respectively.

Restricted Stock Units

The following is a summary of non-vested RSU awards:

	Shares Outstanding (in thousands)	Weighted Average Grant Date Fair Value (per Share)	Weighted Average Life Remaining (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, December 31, 2017	—	\$ —		
Granted	1,877	7.49		
Exercised	—	—		
Canceled or forfeited	(80)	7.46		
Outstanding, December 31, 2018	<u>1,797</u>	\$ 7.49	2.0	\$ 9,254
Vested and expected to vest, December 31, 2018	<u>1,219</u>	\$ 7.49	1.8	\$ 6,278

The time-based RSUs granted during 2018 vest at a rate of 25% per year on each of the first four anniversaries of the grant dates.

The performance-based RSUs granted during 2018 will be evaluated by our Compensation Committee of our Board of Directors after a performance period, beginning on the date of grant through December 31, 2020, based on certain revenue and Adjusted EBITDA growth rate metrics, with achievement of each measure to be determined independently of one another. If the performance criteria of the metrics are approved, the eligible awards will become vested on the third anniversary of the grant dates.

The time-based RSUs granted during the first quarter of 2018 to independent members of our Board of Directors vest in equal installments on each of the first three anniversary dates of the grant date and settle on the earliest of the following events: (i) March 7, 2028; (ii) death; (iii) the occurrence of a Change in Control (as defined in the Amended and Restated 2014 Plan), subject to qualifying conditions; or (iv) the date that is six months following the separation from service, subject to qualifying conditions.

There were approximately 1.9 million shares of RSU awards granted for the year ended December 31, 2018 and no RSUs granted for the years ended December 31, 2017 and 2016. There were zero RSUs that vested during the years ended December 31, 2018, 2017 and 2016.

There was approximately \$6.7 million in unrecognized compensation expense related to RSU awards expected to vest as of December 31, 2018. This cost is expected to be recognized on a straight-line basis over a weighted average period of 3.0 years. We recorded approximately \$1.8 million in non-cash compensation expense related to RSU awards for the year ended December 31, 2018.

17. INCOME TAXES

The following presents consolidated loss before tax for domestic and foreign operations (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Consolidated income (loss) before tax			
Domestic	\$ 1,227	\$ (73,445)	\$ (225,538)
Foreign	1,419	1,378	7,755
Total	<u>\$ 2,646</u>	<u>\$ (72,067)</u>	<u>\$ (217,783)</u>

The income tax (benefit) provision attributable to loss from operations before tax consists of the following components (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Income tax (benefit) provision			
Domestic	\$ (10,166)	\$ (20,507)	\$ 30,400
Foreign	456	343	1,296
Total income tax (benefit) provision	\$ (9,710)	\$ (20,164)	\$ 31,696
Income tax (benefit) provision			
Current	\$ 633	\$ 461	\$ 1,756
Deferred	(10,343)	(20,625)	29,940
Total income tax (benefit) provision	\$ (9,710)	\$ (20,164)	\$ 31,696

A reconciliation of the federal statutory rate and the effective income tax rate is as follows:

	Year Ended December 31,		
	2018	2017	2016
Income tax reconciliation			
Federal statutory rate	21.0 %	35.0 %	35.0 %
Foreign provision	6.8 %	0.3 %	0.5 %
State/province income tax	12.4 %	2.4 %	0.8 %
Non-deductible compensation cost	(7.7)%	(2.0)%	(0.5)%
Adjustment to carrying value ⁽¹⁾	6.2 %	31.2 %	0.2 %
Research credit	(76.3)%	1.9 %	0.2 %
Valuation allowance	(344.9)%	(39.6)%	(27.4)%
Goodwill impairment	— %	— %	(23.5)%
Global intangible low-taxed income	9.1 %	— %	— %
Non-deductible expenses - other	7.2 %	(0.5)%	(0.1)%
Other	(0.8)%	(0.7)%	0.2 %
Effective tax rate	(367.0)%	28.0 %	(14.6)%

(1) The adjustment to carrying value in 2017 is due primarily to the federal tax rate change in the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act").

The major tax-effected components of the deferred tax assets and liabilities are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Deferred income tax assets related to:			
Net operating losses	\$ 97,190	\$ 87,250	\$ 98,664
Stock compensation expense	7,264	6,601	11,559
Accounts receivable allowances	1,582	1,117	1,745
Accrued and prepaid expenses	3,639	3,953	6,276
Long-term debt	—	—	493
Other	1,319	479	1,399
Tax credits	9,244	6,822	6,394
Interest Limitation	2,738	—	—
Valuation allowance	(53,156)	(63,303)	(61,012)
Total deferred income tax assets	\$ 69,820	\$ 42,919	\$ 65,518
Deferred income tax liabilities related to:			
Property, equipment and leased assets	\$ 3,855	\$ 3,129	\$ 13,216
Intangibles	89,865	73,597	106,307
Long-term debt	3,614	3,292	—
Other	353	1,108	3,606
Total deferred income tax liabilities	\$ 97,687	\$ 81,126	\$ 123,129
Deferred income taxes, net	\$ (27,867)	\$ (38,207)	\$ (57,611)

The 2017 Tax Act was enacted on December 22, 2017. The 2017 Tax Act made significant changes to the federal tax law, including a reduction in the federal income tax rate from 35% to 21% effective January 1, 2018, stricter limits on deduction of interest, an 80% taxable income limitation on the use of post-2017 net operating loss (“NOL”), and a one-time transition tax on previously deferred earnings of certain foreign subsidiaries. As a result of our initial analysis of the 2017 Tax Act and existing implementation guidance, we remeasured our deferred tax assets and liabilities, which resulted in a \$22.5 million reduction in our income tax expense in 2017. We computed our transition tax liability of \$1.3 million due to the 2017 Tax Act, net of associated foreign tax credits, which was completely offset by additional foreign tax credits carried forward. Any remaining foreign tax credits not utilized by the transition tax were fully offset by a valuation allowance.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”), which provided guidance on accounting for the tax effects of the 2017 Tax Act. In accordance with the SAB 118 guidance, some of the income tax effects recorded in 2017 and through December 22, 2018 were provisional, including the one-time transition tax, the effect on our valuation allowance including the stricter limits on interest deductions, the GILTI provisions of the 2017 Tax Act, and the remeasurement of our deferred tax assets and liabilities. During 2018, we recognized insignificant adjustments to the provisional amounts recorded at December 31, 2017 and included these adjustments as a component of income tax expense from continuing operations.

Unrepatriated earnings were approximately \$19.7 million as of December 31, 2018. Almost all of these earnings are considered permanently reinvested, as it is management’s intention to reinvest foreign earnings in foreign operations. We project sufficient cash flow, or borrowings available under our New Credit Facilities in the U.S.; therefore, we do not need to repatriate our foreign earnings to finance U.S. operations at this time. Due to the 2017 Tax Act, there is no U.S. federal tax on cash repatriation from foreign subsidiaries, however, it could be subject to foreign withholding tax and U.S. state income taxes.

The 2017 Tax Act subjects a U.S. corporation to current tax on the GILTI earned by certain foreign subsidiaries and a base erosion anti-avoidance tax (“BEAT”). Our foreign subsidiaries’ earnings for the year-ended December 31, 2018 have been subject to U.S. federal income tax via the newly enacted GILTI provision. We have elected to recognize the taxes on GILTI and BEAT as a period expense in the period the taxes are incurred.

Deferred tax assets arise primarily because expenses have been recorded in historical financial statement periods that will not become deductible for income taxes until future tax years. We record valuation allowances to reduce the book value of our deferred tax assets to amounts that are estimated on a more likely than not basis to be realized. This assessment requires judgment and is

performed on the basis of the weight of all available evidence, both positive and negative, with greater weight placed on information that is objectively verifiable such as historical performance.

We evaluated negative evidence noting that we reported cumulative net losses for the three-year periods ended as of December 31, 2016, 2017, and 2018. Pursuant to accounting guidance, a cumulative loss in recent years is a significant piece of negative evidence that must be considered and is difficult to overcome without sufficient objectively verifiable, positive evidence. As such, certain aspects of our historical results were included in our forecasted taxable income. Although our forecast of future taxable income was a positive indicator, since this form of evidence was not objectively verifiable, its weight was not sufficient to overcome the negative evidence. However, based on our current year activity and the changes in the 2017 Tax Act, we decreased our valuation allowance for deferred tax assets by \$10.1 million during 2018. The decrease in our valuation allowance is primarily due to the net operating loss during the year and the interest deduction limitation (deferred tax assets) which can be offset against our indefinite lived deferred tax liabilities. The ultimate realization of deferred tax assets depends on having sufficient taxable income in the future years when the tax deductions associated with the deferred tax assets become deductible. The establishment of a valuation allowance does not impact cash, nor does it preclude us from using our tax credits, loss carry-forwards and other deferred tax assets in the future.

The following is a tabular reconciliation of the total amounts of deferred tax asset valuation allowance (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of period	\$ 63,303	\$ 61,012	\$ 1,442
Charged to provision for income taxes	(9,125)	(2,263)	59,570
Other ⁽¹⁾	(1,022)	4,554	—
Balance at end of period	<u>\$ 53,156</u>	<u>\$ 63,303</u>	<u>\$ 61,012</u>

(1) For 2017, the amount was recorded as a result of our adoption of ASU No. 2016-09 effective January 1, 2017. For 2018, the amount was recorded as a result of our adoption of ASC 606 effective January 1, 2018.

We had \$395.2 million, or \$83.0 million, tax effected, of accumulated federal net operating losses as of December 31, 2018. The net operating losses can be carried forward and applied to offset taxable income for 20 years and will expire starting in 2022 (for losses incurred before 2018). Losses incurred in 2018 of approximately \$38.9 million, or \$8.2 million, tax effected, can be carried forward indefinitely to offset taxable income. We had \$8.5 million, tax effected, of federal research and development credit carry-forwards and \$0.5 million, tax effected, of foreign tax credit carry-forwards as of December 31, 2018. The research and development credits are limited to a 20 years carry-forward period and will expire starting in 2029. The foreign tax credits can be carried forward 10 years and will expire in 2020, if not utilized. Our \$0.3 million balance of alternative minimum tax credits at December 31, 2018 will be refunded over the next four years in accordance with the 2017 Tax Act. We also have a receivable for \$0.6 million related to alternative minimum tax credits for which a refund was requested on our December 31, 2017 federal tax return. As of December 31, 2018, \$46.6 million of our valuation allowance relates to federal net operating loss carry-forwards and credits that we estimate are not more likely than not to be realized.

We had tax effected state net operating loss carry-forwards of approximately \$14.1 million as of December 31, 2018. The state net operating loss carry-forwards will expire between 2019 and 2039. The determination and utilization of these state net operating loss carry-forwards are dependent upon apportionment percentages and other respective state laws, which can change from year to year. As of December 31, 2018, \$6.5 million of our valuation allowance relates to certain state net operating loss carry-forwards that we estimate are not more likely than not to be realized. The remaining valuation allowance of \$0.1 million relates to foreign net operating losses.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Unrecognized tax benefit			
Unrecognized tax benefit at the beginning of the period	\$ 937	\$ 834	\$ 729
Gross increases - tax positions in prior period	125	103	105
Unrecognized tax benefit at the end of the period	<u>\$ 1,062</u>	<u>\$ 937</u>	<u>\$ 834</u>

We have analyzed filing positions in all of the federal, state, and foreign jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. As of December 31, 2018, the Company recorded \$1.1 million of unrecognized tax benefits, all of which would impact our effective tax rate, if recognized. We do not anticipate that our unrecognized tax benefits will materially change within the next 12 months. The Company has not accrued any penalties and interest for its unrecognized tax benefits. Other than the unrecognized tax benefit recorded, we believe that our income tax filing positions and deductions will be sustained upon audit, and we do not anticipate any other adjustments that will result in a material change to our financial position. We may, from time to time, be assessed interest or penalties by tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. Our policy for recording interest and penalties associated with audits and unrecognized tax benefits is to record such items as a component of income tax in our Statements of Income (Loss).

We are subject to taxation in the U.S. and various states and foreign jurisdictions. We have a number of federal and state income tax years still open for examination as a result of our net operating loss carry-forwards. Accordingly, we are subject to examination for both U.S. federal and some of the state tax returns for the years 2004 to present. For the remaining state, local and foreign jurisdictions, with some exceptions, we are no longer subject to examination by tax authorities for years before 2015.

18. SEGMENT INFORMATION

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-making group (the “CODM”). Our CODM consists of the Chief Executive Officer and the Chief Financial Officer. Our CODM allocates resources and measures profitability based on our operating segments, which are managed and reviewed separately, as each represent products and services that can be sold separately to our customers. Our segments are monitored by management for performance against our internal forecasts.

We have reported our financial performance based on our segments in both the current and prior periods. Our CODM determined that our operating segments for conducting business are: (a) Games; and (b) FinTech:

- The Games segment provides solutions directly to gaming establishments to offer their patrons gaming entertainment-related experiences including: leased gaming equipment; sales and maintenance-related services of gaming equipment; gaming systems; interactive solutions; and ancillary products and services.
- The FinTech segment provides solutions directly to gaming establishments to offer their patrons cash access-related services and products, including: access to cash at gaming facilities via ATM cash withdrawals; credit card cash access transactions and POS debit card cash access transactions; check-related services; equipment and maintenance services; compliance, audit and data software; casino credit data and reporting services and other ancillary offerings.

Corporate overhead expenses have been allocated to the segments either through specific identification or based on a reasonable methodology. In addition, we record depreciation and amortization expenses to the business segments.

Our business is predominantly domestic with no specific regional concentrations and no significant assets in foreign locations.

The accounting policies of the operating segments are generally the same as those described in the summary of significant accounting policies. Since we adopted ASC 606 utilizing the modified retrospective method, the prior year comparative amounts shown in the tables below have not been restated. Refer to “Note 2 — Basis of Presentation and Summary of Significant Accounting Policies” and “Note 3 — Adoption of ASC 606, Revenue from Contracts with Customers” for more information.

The following tables present segment information (in thousands):

	For the Year Ended December 31,		
	2018	2017	2016
Games			
Revenue			
Gaming operations	\$ 168,146	\$ 148,654	\$ 152,514
Gaming equipment and systems	87,038	70,118	56,277
Gaming other	3,794	4,005	4,462
Total revenues	\$ 258,978	\$ 222,777	\$ 213,253
Costs and expenses			
Cost of revenues⁽¹⁾			
Gaming operations	17,603	15,741	15,265
Gaming equipment and systems	47,121	35,707	31,602
Gaming other	3,285	3,247	3,441
Total cost of revenues	68,009	54,695	50,308
Operating expenses	57,244	42,780	42,561
Research and development	20,497	18,862	19,356
Goodwill impairment	—	—	146,299
Depreciation	55,058	40,428	41,582
Amortization	55,099	57,060	79,390
Total costs and expenses	255,907	213,825	379,496
Operating income (loss)	\$ 3,071	\$ 8,952	\$ (166,243)

(1) Exclusive of depreciation and amortization.

	For the Year Ended December 31,		
	2018	2017	2016
FinTech			
Revenues			
Cash access services	\$ 156,806	\$ 707,222	\$ 601,874
Equipment	20,977	13,258	14,995
Information services and other	32,754	31,691	29,334
Total revenues	\$ 210,537	\$ 752,171	\$ 646,203
Costs and expenses			
Cost of revenues⁽¹⁾			
Cash access services	9,717	572,880	485,061
Equipment	12,601	7,717	9,889
Information services and other	4,110	3,253	3,756
Cost of revenues	26,428	583,850	498,706
Operating expenses	85,054	76,155	76,148
Depreciation	6,167	6,854	8,413
Amortization	10,146	12,445	15,248
Total costs and expenses	127,795	679,304	598,515
Operating income	\$ 82,742	\$ 72,867	\$ 47,688

(1) Exclusive of depreciation and amortization.

	For the Year Ended December 31,		
	2018	2017	2016
Total Games and FinTech			
Total revenues	\$ 469,515	\$ 974,948	\$ 859,456
Costs and expenses			
Cost of revenues ⁽¹⁾	94,437	638,545	549,014
Operating expenses	142,298	118,935	118,709
Research and development	20,497	18,862	19,356
Goodwill impairment	—	—	146,299
Depreciation	61,225	47,282	49,995
Amortization	65,245	69,505	94,638
Total costs and expenses	383,702	893,129	978,011
Operating income (loss)	\$ 85,813	\$ 81,819	\$ (118,555)

(1) Exclusive of depreciation and amortization.

	At December 31,	
	2018	2017
Total assets		
Games	\$ 912,849	\$ 925,186
FinTech	635,412	611,888
Total assets	\$ 1,548,261	\$ 1,537,074

Major customers. For the years ended December 31, 2018, 2017, and 2016, no single customer accounted for more than 10% of our revenues. Our five largest customers accounted for approximately 22%, 31%, and 31% of our total revenue in 2018, 2017, and 2016, respectively.

19. SELECTED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The unaudited selected quarterly results of operations are as follows (in thousands, except for per share amounts)*. Since we adopted ASC 606 utilizing the modified retrospective method, the prior year comparative amounts shown in the table below have not been restated.

	Quarter				Year
	First	Second	Third	Fourth	
2018					
Revenues	\$ 111,001	\$ 118,682	\$ 120,330	\$ 119,502	\$ 469,515
Operating income	24,491	22,597	21,510	17,215	85,813
Net income	4,609	1,475	2,069	4,203	12,356
Basic earnings per share	\$ 0.07	\$ 0.02	\$ 0.03	\$ 0.06	\$ 0.18
Diluted earnings per share	\$ 0.06	\$ 0.02	\$ 0.03	\$ 0.06	\$ 0.17
Weighted average common shares outstanding					
Basic	68,686	69,203	69,750	70,196	69,464
Diluted	73,285	73,440	74,594	74,024	73,796
2017					
Revenues	\$ 237,537	\$ 242,230	\$ 247,322	\$ 247,859	\$ 974,948
Operating income (loss)	22,603	21,292	19,795	18,129	81,819
Net loss	(3,508)	(19,057)	(4,289)	(25,049)	(51,903)
Basic loss per share	\$ (0.05)	\$ (0.29)	\$ (0.06)	\$ (0.37)	\$ (0.78)
Diluted loss per share	\$ (0.05)	\$ (0.29)	\$ (0.06)	\$ (0.37)	\$ (0.78)
Weighted average common shares outstanding					
Basic	66,090	66,350	66,897	67,755	66,816
Diluted	66,090	66,350	66,897	67,755	66,816

* Rounding may cause variances.

20. SUBSEQUENT EVENTS

On March 8, 2019, we entered into an agreement to acquire certain assets from a privately held company that develops and distributes hardware and software applications to gaming operators to enhance gaming patron loyalty. This acquisition includes existing contracts with gaming operators, technology and intellectual property that allow us to provide gaming operators a self-service enrollment and loyalty card printing kiosk, a mobile application to offer a gaming operator's patrons additional flexibility in accessing casino promotions, and a marketing platform that manages and delivers a gaming operator's marketing programs through these patron interfaces. This acquisition will expand our financial technology solutions offerings within our FinTech segment. Under the terms of the asset purchase agreement, we paid the seller \$20 million at the closing of the transaction and will pay an additional \$10 million one year following after closing and another \$10 million two years following after the date of closing. In addition, we expect that an additional \$10 million in contingent consideration will be earned by the seller based upon the achievement of certain revenue targets over the first two years post-closing. We expect the total purchase price for this acquisition, inclusive of the contingent consideration, to be approximately \$50 million. We have not completed the purchase price accounting analysis, however, we do not expect that the acquisition will have a material impact on our results of operations or financial condition.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the reporting period covered by this Form 10-K. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report on Form 10-K, the Company's disclosure controls and procedures are effective such that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report of Internal Control over Financial Reporting

The Company's management, including its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Management assessed the effectiveness of internal control over financial reporting as of December 31, 2018, utilizing the criteria described in the "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on this assessment, management has concluded that our internal control over financial reporting was effective at a reasonable assurance level as of December 31, 2018.

Our independent registered public accounting firm, BDO USA, LLP, independently assessed the effectiveness of the Company's internal control over financial reporting, as stated in the firm's attestation report, which is included within Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fourth quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Everi Holdings Inc. and subsidiaries
Las Vegas, Nevada

Opinion on Internal Control over Financial Reporting

We have audited Everi Holdings Inc. and subsidiaries' (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income (loss) and comprehensive income (loss), stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated March 12, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP
Las Vegas, Nevada
March 12, 2019

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information regarding our directors, executive officers, and certain corporate governance related matters contained under the headings “Election of Directors,” “Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Board and Corporate Governance Matters” in the Company’s definitive proxy statement to be filed with the SEC in connection with our 2019 annual meeting of stockholders (the “2019 Proxy Statement”) is incorporated herein by reference.

Item 11. Executive Compensation.

The information regarding director compensation and executive officer compensation contained under the headings “Board and Corporate Governance Matters – 2018 Director Compensation” and “Executive Compensation,” respectively, in the 2019 Proxy Statement is incorporated herein by reference.

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

The information regarding share ownership contained under the heading “Security Ownership of Certain Beneficial Owners and Management” in the 2019 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information regarding director independence and related party transactions under the headings “Board and Corporate Governance Matters – Director Independence” and “Transactions with Related Persons,” respectively, in the 2019 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information regarding audit fees, audit-related fees, tax fees, all other fees, and the Audit Committee’s policies and procedures on pre-approval of audit and permissible non-audit services of independent auditors contained under the heading “Ratification of the Appointment of Independent Registered Public Accounting Firm” in the 2019 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

Report of BDO USA, LLP, Independent Registered Public Accounting Firm	48
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the three years ended December 31, 2018	49
Consolidated Balance Sheets as of December 31, 2018 and 2017	51
Consolidated Statements of Cash Flows for the three years ended December 31, 2018	52
Consolidated Statements of Stockholders' (Deficit) Equity for the three years ended December 31, 2018	54
Notes to Consolidated Financial Statements	55

2. Financial Statement Schedules

All schedules have been omitted as they are either not required or not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

3. See Item 15(b)

(b) Exhibits:

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of Holdings (incorporated by reference to Exhibit 3.1 of Amendment No.1 Holdings' Registration Statement on Form S-1 (Registration No. 333-123514) filed with the SEC on May 26, 2005).
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Holdings (incorporated by reference to Exhibit 3.1 of Holdings' Current Report on Form 8-K filed with the SEC on April 30, 2009).
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Holdings (incorporated by reference to Exhibit 3.1 of Holdings' Current Report on Form 8-K filed with the SEC on August 14, 2015).
3.4	Second Amended and Restated Bylaws of Holdings (effective as of August 24, 2015) (incorporated by reference to Exhibit 3.2 of Holdings' Current Report on Form 8-K filed with the SEC on August 14, 2015).
4.1	Indenture (and Form of 7.50% Senior Note due 2025 attached as Exhibit A thereto), dated as of December 5, 2017, by and among Everi Payments, Everi Holdings, certain of its wholly owned subsidiaries, as guarantors, and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 of Holdings' Current Report on Form 8-K filed with the SEC on December 5, 2017).
10.1	Credit Agreement, dated as of May 9, 2017, among Everi Payments, Holdings, the lenders party thereto and Jefferies Finance LLC, as administrative agent, collateral agent, swing line lender, letter of credit issuer, sole lead arranger and sole book manager (incorporated by reference to Exhibit 10.1 of Holdings' Current Report on Form 8-K filed with the SEC on May 9, 2017).
10.2	Security Agreement, dated as of May 9, 2017, among Everi Payments, Holdings, as a guarantor, the subsidiary guarantors party thereto, and Jefferies Finance LLC, as collateral agent, related to the Credit Agreement (incorporated by reference to Exhibit 10.2 of Holdings' Current Report on Form 8-K filed with the SEC on May 9, 2017).
10.3	Guaranty, dated May 9, 2017, by Everi Holdings, as a guarantor, and the subsidiary guarantors party thereto, in favor of the lenders party from time to time to the Credit Agreement and Jefferies Finance LLC, as administrative agent (incorporated by reference to Exhibit 10.3 of Holdings' Current Report on Form 8-K filed with the SEC on May 9, 2017).

Exhibit Number	Exhibit Description
10.4	First Amendment to Credit Agreement, dated November 13, 2017, among Everi Payments, Holdings, the subsidiary guarantors party thereto, the lenders party thereto and Jefferies Finance LLC, as administrative agent (incorporated by reference to Exhibit 10.1 of Holdings' Current Report on Form 8-K filed with the SEC on November 13, 2017).
10.5	Agreement for Processing Services, dated as of August 20, 2013, by and between Columbus Data Services, LLC and Everi Payments (incorporated by reference to Exhibit 10.10 of Holdings' Annual Report on Form 10-K filed with the SEC on March 15, 2016).
10.6	Sponsorship Agreement, dated February 11, 2011, between Everi Payments and American State Bank (incorporated by reference to Exhibit 10.54 of Holdings' Annual Report on Form 10-K filed with the SEC on March 14, 2011).
†10.7	Holdings 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.25 of the Annual Report on Form 10-K of Everi Payments filed with the SEC on March 10, 2005).
†10.8	Form of Stock Option Award for Performance Price Vesting under the 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 5, 2014).
†10.9	Form of Stock Option Award for Cliff Vesting under the 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 5, 2014).
†10.10	Form of Stock Option Award for Non-Employee Directors under the 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 5, 2014).
†10.11	Form of Stock Option Award for Executives under the 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 5, 2014).
†10.12	Form of Stock Option Award for Employees under the 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 5, 2014).
†10.13	Holdings Amended and Restated 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to Holdings' Current Report on Form 8-K filed with the SEC on May 25, 2018).
†10.14	Form of Stock Option Agreement under the Amended and Restated 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.15	Form of Stock Option Award (Performance-Based) (Double-Trigger Acceleration) for Non-Employee Directors under the Amended and Restated 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.16	Form of Stock Option Award (Performance-Based) (Double-Trigger Acceleration) for Executives under the Amended and Restated 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.17	Form of Stock Option Award (Time-Based) (Double-Trigger Acceleration) for Non-Employee Directors under the Amended and Restated 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.18	Form of Stock Option Award (Time-Based) (Double-Trigger Acceleration) for Executives under the Amended and Restated 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.19	Form of Stock Option Award (Time-Based) (Double-Trigger Acceleration) for Employees under the Amended and Restated 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.20	Holdings 2012 Equity Incentive Plan (incorporated by reference to Exhibit 99.1 to Holdings' Current Report on Form S-8 filed with the SEC on March 16, 2015).
†10.21	Amendment to the Holdings 2012 Equity Incentive Plan (incorporated by reference to Exhibit 99.2 to Holdings' Current Report on Form S-8 filed with the SEC on March 16, 2015).
†10.22	Form of Stock Option Agreement under the 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.13 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).

Exhibit Number	Exhibit Description
†10.23	Form of Stock Option Award (Performance-Based) (Double-Trigger Acceleration) for Non-Employee Directors under the 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.24	Form of Stock Option Award (Performance-Based) (Double-Trigger Acceleration) for Executives under the 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.9 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.25	Form of Stock Option Award (Time-Based) (Double-Trigger Acceleration) for Non-Employee Directors under the 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.26	Form of Stock Option Award (Time-Based) (Double-Trigger Acceleration) for Executives under the 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.27	Form of Stock Option Award (Time-Based) (Double-Trigger Acceleration) for Employees under the 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 to Holdings' Current Report on Form 8-K filed with the SEC on May 10, 2016).
†10.28	Form of Indemnification Agreement between Holdings and each of its executive officers and directors (incorporated by reference to Exhibit 10.27 to Holdings' Registration Statement on Form S-1 (Registration No. 333-123514) filed with the SEC on March 22, 2005).
†10.29	Employment Agreement with Randy L. Taylor (effective as of August 5, 2014) (incorporated by reference to Exhibit 10.1 of Holdings' Current Report on Form 8-K filed with the SEC on August 5, 2014).
†10.30	Employment Agreement with Juliet A. Lim (effective as of August 5, 2014) (incorporated by reference to Exhibit 10.34 of Holdings' Annual Report on Form 10-K filed with the SEC on March 16, 2015).
†10.31	First Amendment to Employment Agreement with Juliet A. Lim (effective as of January 3, 2017) (incorporated by reference to Exhibit 10.45 of Holdings' Annual Report on Form 10-K filed with the SEC on March 14, 2017).
†10.32	Employment Agreement with David Lucchese (effective as of August 5, 2014) (incorporated by reference to Exhibit 10.2 of Holdings' Current Report on Form 8-K filed with the SEC on August 5, 2014).
†10.33	First Amendment to Employment Agreement with David Lucchese (effective as of January 3, 2017) (incorporated by reference to Exhibit 10.47 of Holdings' Annual Report on Form 10-K filed with the SEC on March 14, 2017).
†10.34	Employment Agreement with Edward A. Peters (effective January 15, 2015) (incorporated by reference to Exhibit 10.1 of Holdings' Current Report on Form 8-K filed with the SEC on January 22, 2015).
†10.35	Amended and Restated Employment Agreement with Michael Rumbolz (effective May 5, 2017) (incorporated by reference to Exhibit 10.4 of Holdings' Current Report on Form 8-K filed with the SEC on May 9, 2017).
†10.36	Notice of Grant of Stock Option with Michael Rumbolz, dated February 13, 2016 (incorporated by reference to Exhibit 10.1 of Holdings' Current Report on Form 8-K filed with the SEC on February 16, 2016).
†10.37	Form of Notice of Stock Option Award and Stock Option Award Agreement for Michael Rumbolz (effective August 30, 2010) (incorporated by reference to Exhibit 10.3 of Holdings' Current Report on Form 8-K filed with the SEC on September 2, 2010).
10.38	Transition and Resignation Agreement and General Release of All Claims with Juliet A. Lim dated October 25, 2017 (incorporated by reference to Exhibit 10.1 of Holdings' Quarterly Report on Form 10-Q filed with the SEC on November 7, 2017).
10.39	Second Amendment to Credit Agreement, dated May 17, 2018, among Everi Payments, Holdings, the subsidiary guarantors party thereto, the lenders party thereto and Jefferies Finance LLC, as administrative agent (incorporated by reference to Exhibit 10.1 of Holdings' Current Report on Form 8-K filed with the SEC on May 17, 2018).
†*10.40	First Amendment to Amended and Restated Employment Agreement with Michael Rumbolz (effective February 1, 2019).
†*10.41	Notice of Grant of Restricted Stock Units (Time-Based) under the 2014 Equity Incentive Plan for Michael Rumbolz (effective February 1, 2019).

Exhibit Number	Exhibit Description
†10.42	Employment Agreement with Dean A. Ehrlich (effective January 1, 2017) (incorporated by reference to Exhibit 10.1 of Holdings' Quarterly Report on Form 10-Q filed with the SEC on May 9, 2018).
†10.43	Form of Deferred Restricted Stock Units Agreement for Non-Employee Directors under the 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 7, 2018).
†10.44	Form of Notice of Grant of Deferred Restricted Stock Units for the Non-Employee Directors under the 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 7, 2018).
†10.45	Form of Deferred Restricted Stock Units Agreement for Non-Employee Directors under the 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 7, 2018).
†10.46	Form of Notice of Grant of Deferred Restricted Stock Units Agreement for Non-Employee Directors under the 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 7, 2018).
†10.47	Form of Restricted Stock Units Agreement under the 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 7, 2018).
†10.48	Form of Notice of Grant of Restricted Stock Units (Performance-Based) for Executives under the 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 7, 2018).
†10.49	Form of Notice of Grant of Restricted Stock Units (Time-Based) under the 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 7, 2018).
†10.50	Form of Notice of Grant of Restricted Stock Units (Time-Based) for Executives under the 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.9 to Holdings' Quarterly Report on Form 10-Q filed with the SEC on August 7, 2018).
*21.1	Subsidiaries of Holdings.
*23.1	Consent of BDO USA, LLP.
*24.1	Power of Attorney (included on signature page).
*31.1	Certification of Chief Executive Officer of Holdings in accordance with Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer of Holdings in accordance with Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**32.1	Certification of the Chief Executive Officer and Chief Financial Officer of Holdings in accordance with 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema Document.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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- * Filed herewith.
 - ** Furnished herewith.
 - † Management contracts or compensatory plans or arrangements.
 - + Confidential treatment has been granted for certain portions of this exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended. The confidential information has been omitted and filed separately with the SEC.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: March 12, 2019

EVERI HOLDINGS INC.

By: /s/ TODD A. VALLI

Todd A. Valli
*Chief Accounting Officer (Principal
Accounting Officer)*

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael D. Rumbolz, Randy L. Taylor, and Todd A. Valli and each of them, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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

Signature	Title	Date
<u>/s/ MICHAEL D. RUMBOLZ</u> Michael D. Rumbolz	President and Chief Executive Officer (Principal Executive Officer) and Director	March 12, 2019
<u>/s/ RANDY L. TAYLOR</u> Randy L. Taylor	Chief Financial Officer (Principal Financial Officer)	March 12, 2019
<u>/s/ TODD A. VALLI</u> Todd A. Valli	Chief Accounting Officer (Principal Accounting Officer)	March 12, 2019
<u>/s/ E. MILES KILBURN</u> E. Miles Kilburn	Chairman of the Board and Director	March 12, 2019
<u>/s/ GEOFFREY P. JUDGE</u> Geoffrey P. Judge	Director	March 12, 2019
<u>/s/ RONALD V. CONGEMI</u> Ronald V. Congemi	Director	March 12, 2019
<u>/s/ EILEEN F. RANEY</u> Eileen F. Raney	Director	March 12, 2019
<u>/s/ LINSTER W. FOX</u> Linster W. Fox	Director	March 12, 2019
<u>/s/ MAUREEN T. MULLARKEY</u> Maureen T. Mullarkey	Director	March 12, 2019

